

THE STATUS OF FINANCIAL MANAGEMENT  
REFORM WITHIN THE DEPARTMENT OF  
DEFENSE AND THE INDIVIDUAL SERVICES

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108

Y 4.AR 5/3:S.HRG.108-859

The Status of Financial Management

BEFORE THE

SUBCOMMITTEE ON READINESS AND MANAGEMENT  
SUPPORT

OF THE

COMMITTEE ON ARMED SERVICES

UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

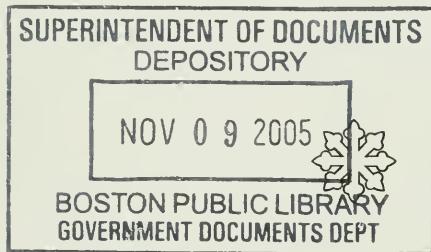
SECOND SESSION

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NOVEMBER 18, 2004

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Printed for the use of the Committee on Armed Services



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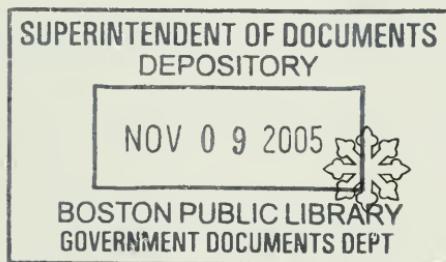
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# THE STATUS OF FINANCIAL MANAGEMENT REFORM WITHIN THE DEPARTMENT OF DEFENSE AND THE INDIVIDUAL SERVICES

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THURSDAY, NOVEMBER 18, 2004

U.S. SENATE,  
SUBCOMMITTEE ON READINESS  
AND MANAGEMENT SUPPORT,  
COMMITTEE ON ARMED SERVICES,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 3:29 p.m. in room SR-222, Russell Senate Office Building, Senator John Ensign (chairman of the subcommittee) presiding.

Committee members present: Senators Ensign, Warner, and Levin.

Majority staff members present: William C. Greenwalt, professional staff member; Gregory T. Kiley, professional staff member; and Thomas L. MacKenzie, professional staff member.

Minority staff member present: Peter K. Levine, minority counsel.

Staff assistants present: Alison E. Brill and Andrew W. Florell.

Committee members' assistants present: D'Arcy Grisier, assistant to Senator Ensign; Erik Raven, assistant to Senator Byrd; and Davelyn Noelani Kalipi, assistant to Senator Akaka.

## OPENING STATEMENT OF SENATOR JOHN ENSIGN, CHAIRMAN

Senator ENSIGN. The subcommittee will come to order. I want to welcome our witnesses to the subcommittee today, the Subcommittee on Readiness and Management Support, and we'll be happy to receive your testimony after I make an opening statement.

Senator Akaka would have loved to have been with us today, obviously, and he and I enjoy a great bipartisan relationship. We work together. Our staffs work together incredibly well on this subcommittee. He would have loved to have been here today, but there was something to do with a little presidential library opening in Little Rock, Arkansas, that he is attending right now. So we know that he is with us in spirit, if not in presence.

We talked about 6 months ago about having this hearing, a follow-up hearing. The reason was because in the past people have continued to come before this subcommittee and say changes are underway; well, we are getting our arms around these problems and changes are underway, but we keep hearing, way before I was on this committee, that the problems are going to be fixed, and they are going to be fixed, and they are going to be fixed.

We have problems that are widespread with our National Guard and reservists getting paid. For me, especially when we are at a time of war, that is something that is completely unacceptable. You are calling people from their jobs—you are calling them up, and it is completely unacceptable that there would be problems with their pay.

If it were an isolated incident, that might be at least understandable. But when the problems are as widespread, at least as they are reported, that is completely unacceptable.

Now, we have problems, obviously, knowing where our inventory is, where it is in the world. It has been a long-time problem, and we understand that that problem is still widespread.

The financial statements, 23 out of 24 major agencies of the United States can pass audits, but not the Department of Defense (DOD). Supposedly that will happen by 2007, but from what I hear that is only in our dreams. Because of Sarbanes-Oxley, Chief Executive Officers (CEOs) and Chief Financial Officers (CFOs) now have to sign their financial statements and be responsible for those financial statements in huge companies in the world, and if they are not accurate they can be held criminally liable, be criminally liable, and civilly liable as well. You ask those CEOs and CFOs if those things get done, and they certainly happen.

We now have something like 4,000 different business systems within DOD. I guess an additional 1,700 have been discovered since March. We certainly want to hear why all of these different business systems need to exist and what we are doing about those, and especially how did we just discover another 1,700 in the last 6 months.

Also, every time folks appear before this committee promises are made, and I want to reiterate that those promises are just not being kept. I think about a company like Wal-Mart. One of the excuses we hear is because of how massive the Department of Defense is. Wal-Mart is the largest employer in the United States as far as the private sector is concerned. They have over a million employees.

When you think about a company like that, with the number of employees—part-time, full-time, people coming in and out all the time—they get their paychecks. They know where their inventories are. FedEx can trace any package anywhere in the world at any time, and we cannot keep track of our inventories.

The bottom line with it is that their people are held accountable, and I do not think that this Congress has been holding DOD accountable. The message that I want to send today is, with this hearing—and we want to hear some answers—is that if the Department of Defense does not start holding their own people accountable, the Congress is going to have to, and that is just the way it needs to be. We cannot hear, "Well, we are getting our arms around it," and keep hearing that.

We will continue to hold hearings in this subcommittee to make sure that the fire does stay applied to the feet and that we will make sure that we are at least doing our part from the congressional end to make sure that some of these changes are made. Our men and women in uniform, frankly, deserve better. The American taxpayer deserves better.

In your testimony today, I hope that you address some of the issues that I've pointed out and are willing to give us forthright answers. I realize that sometimes people are in jobs and the bureaucracy waits people out. When the political appointees come and they're there for a short period of time, the bureaucracies will just wait them out. But I also know that if priorities are driven from the top down, people understand that those are priorities. Things do get done, even if those people are only going to be there for a period of time.

I have been a person in the past that has said to our most important entity in the Federal Government, the Department of Defense, that we will give you what you need to do your jobs. Without question we will make sure you have the resources to do your jobs, but then we must hold you accountable for those resources. That is what this hearing is about today—accountability. Frankly, accountability needs to be increased as far as the Department of Defense is concerned.

I recognize Senator Levin for any opening statements.

Senator LEVIN. Mr. Chairman, thank you, first and foremost, for convening this hearing today. You are right on target in your sentiments and your concerns. I commend you on calling a hearing that focuses on shortcomings in the financial management systems in the Department of Defense. This is a subject of vital importance to the Department and to this committee. Without timely, accurate financial information our senior military and civilian leaders are severely handicapped in making day-to-day management decisions and ensuring that taxpayers' dollars are well spent.

Three years ago, Mr. Walker and the Department of Defense Comptroller, Dov Zakheim, told us that the foundation for solving the Department's financial management problems was a new enterprise architecture covering all of the Department's business systems. Unfortunately, despite spending some \$200 million on the project, it appears the Department still does not have an adequate enterprise architecture and transition plan.

In fact, we have been told that the Department of Defense has yet to develop even such basic elements of an enterprise architecture as DOD-wide standards and data elements. This is a major failure. In effect, what we are being told is that 3 years and \$200 million later we have not even been able to move the ball forward.

I understand that in the absence of an effective DOD-wide enterprise architecture, the military departments may be pressing ahead with their own plans to field new systems to improve their financial management. But I am concerned that these stand-alone efforts by individual components may be counterproductive in the absence of an overall plan.

Because of a last-minute scheduling change, the ranking member of this subcommittee, Senator Akaka, is unable to attend today's hearing. I also have another previous obligation, which I cannot change, and so I am afraid that I must leave. I think our witnesses know and I know our chairman knows that this is not from a lack of interest in this subject.

Mr. Chairman, you are intrepid and dogged in pursuing this. I commend you on it. I join you, at least in spirit. If I could, I want to leave three questions for our witnesses that I hope they will ad-

dress in the course of the hearing: First, does the Comptroller General and does the DOD Comptroller still believe, as they did 3 years ago, that the Department needs a comprehensive business enterprise architecture and transition plan to guide the transformation of its business systems?

Second, if so, when can we expect to see such an enterprise architecture and transition plan?

Third, in the absence of such an enterprise architecture and transition plan, are the individual efforts of the three military Services a positive contribution to the overall financial management of the Department or are these efforts counterproductive? I think those are probably the questions which you would be asking in any event, but I thought I would lay them out.

Again, I thank you, Mr. Chairman. I am only sorry that I cannot stay to join you in this important effort.

Senator ENSIGN. Thank you, Senator Levin. Thanks for your interest and your passion on this issue as well.

Let me, first of all, officially welcome all of you. Just for the record, first off will be the Honorable David M. Walker, Comptroller General of the United States; followed by the Honorable Tina W. Jonas, Under Secretary of Defense. Then, from what I understand, we have written statements from the Honorable Valerie Lynn Baldwin, Assistant Secretary of the Army; the Honorable Richard Greco, Jr., Assistant Secretary of the Navy; and the Honorable Michael Montelongo, Assistant Secretary of the Air Force, and they are here to respond to questions.

I welcome all of you, and we will start with David Walker.

#### **STATEMENT OF HON. DAVID M. WALKER, COMPTROLLER GENERAL OF THE UNITED STATES**

Mr. WALKER. Thank you, Mr. Chairman. It is good to be back before you. If it is all right with you, I would like to have my entire statement entered in the record and I will summarize it, with your permission.

Senator ENSIGN. Without objection, all of the written statements will be made part of the record.

Mr. WALKER. Thank you, Mr. Chairman.

I am pleased to be back before you. I want to compliment this subcommittee for having a hearing on DOD's financial management and business transformation efforts. I agree with you—it is important to have these hearings, hopefully at least twice a year, because this is a critically important initiative.

DOD has six of the specific program areas on the General Accountability Office's (GAO) high-risk list and it also shares three of the government-wide areas. So it has 9 of 25, more than its fair share. I will say that there is absolutely no question in my mind that from the Secretary of Defense down that the key leadership in the Department is committed to changing the status quo and that some progress has been made over the last several years.

However, significant challenges remain and I believe that it is ultimately going to be several years before we're ultimately at the place that we need to be.

If I can, let me summarize some of the key issues that I think would be of interest to you, Mr. Chairman, and some of the mem-

bers on the subcommittee. I think it is important to know that financial management is a subset of the overall transformation effort and that, while DOD currently deserves an A-plus on fighting and winning armed conflicts, they are still a D on economy, efficiency, transparency, and accountability on the business side, and that is graded on a curve.

As I reported to you several years ago, many of these are long-standing and deeply-rooted challenges that are part of the culture of DOD, where to a great extent the resources have been allocated to the Services and various units. It is the old adage: Better to ask for forgiveness than for permission. As General George Washington said during the Revolution, it is critically important to be able to link resources with responsibility in order to get results; and if you do not link resources with responsibility in order to get results, chances are you are not ultimately going to be successful. That is also critically important from an accountability standpoint.

With regard to DOD's financial management challenges, clearly there are more entities that now have clean opinions than was the case 3 years ago. I believe there are six. I think Under Secretary Jonas will testify six that the Department has six clean opinions now versus three 3 years ago. That is progress, but none of the major Services have been able to put themselves in a position to be able to withstand an audit at the present point in time.

At the present point in time, DOD has a target date to achieve a clean opinion on the financial statements of DOD by 2007. In my opinion, Mr. Chairman, while that is a goal, there is not a plan to reach that goal and it is not a realistic goal. They need to recalibrate what the goal is. They need to develop a plan with specific milestones focused on specific entities and specific line items in the financial statements, what the goals would be by year, assign responsibility and accountability for each item. Realistically, there is no way that the Department is going to be in a position to get a clean opinion on its financial statements by 2007.

With regard to Business Management Modernization Program (BMMP) or the Business Enterprise Architecture (BEA), that is a critically important initiative with regard to the overall business transformation effort. Over \$200 million has been spent. There are deliverables that have resulted from that. However, there is also a need to develop a more formalized plan and responsibility and accountability for that.

One of the challenges that exists at the Department of Defense is that frequently there is turnover with regard to the point persons who are responsible and accountable for getting things done. The fact of the matter is, if you take the BMMP, there have been three people who have served as directors of that project in the last 3 years. You cannot have that type of turnover and get the type of results and have the type of accountability that is necessary.

So I think it is important, not just for the financial management area, but also the BMMP. There is a need for a plan with specific milestones, broken down into digestible parts, to assign responsibility and accountability to specific people, and to generate more continuity of leadership in order to be able to do what needs to be done.

I would note that the Ronald W. Reagan National Defense Authorization Act (NDAA) for Fiscal Year 2005 did include some provisions that made the so-called functional areas or domains responsible for approval of system investment activities. That is clearly a positive step forward. However, I would also note that the resources for information technology (IT) investments have still been allocated to the Services.

Mr. Chairman, we continue to believe you cannot separate responsibility from resources. It is critically important to align responsibility with resources in order to get demonstrable and sustainable results. So I would compliment this subcommittee and the Senate and the Congress for that step forward, but I believe it is critically important that the additional step be taken.

I would also note, Mr. Chairman, that when you look at the challenges facing the Department of Defense that are longstanding since 1947, at the inception of the Department of Defense, that one of the challenges I really believe that they have is in many cases you cannot answer the question of who is in charge, what single person is responsible and accountable for who is in charge and then breaking it down into individual components.

In my opinion, Mr. Chairman, there is no question that the Department of Defense needs a Chief Management Officer, at the Level II area, focused full-time, with a proven track record of success, preferably in the private sector, with some government experience for dealing with these basic business challenges that exist. This person would have a term appointment, a performance contract, and could be responsible and accountable solely for this business transformation effort. The chief management officer is who the under secretaries with appropriate portfolios would report to, who the Service Secretaries with regard to business transformation efforts would report to, and who would report to the Secretary.

Mr. Chairman, in my opinion—and I have many years of experience in the public sector and private sector on transformation efforts—if the Department of Defense does not develop a Chief Management Officer at Level II who is responsible and accountable for this, who can take a more strategic and integrated approach on a sustained basis over a period of time, and if we do not link resources with responsibility, this effort will not succeed.

Let me restate that, Mr. Chairman. I think it is absolutely critical that the Department of Defense have a Chief Management Official and that we link resources with the results, or else I fear that it will never be successful. At a time where our Nation faces huge deficits and long-range fiscal imbalances, we cannot afford to waste the billions of dollars that are wasted by not being able to deal with these issues—billions of dollars each year.

Mr. Chairman, let me also note that it is possible for the Department of Defense within its existing allocation of presidential appointee Senate confirmation positions, to administratively implement this position without legislative action.

However, I also believe that ultimately the Congress should act to codify this position in order to make sure that it will stay no matter who is the President, no matter who is Secretary of Defense. This is basic and I believe essential for success at the Department of Defense.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Walker follows:]

PREPARED STATEMENT BY HON. DAVID M. WALKER

Mr. Chairman and members of the subcommittee: It is a pleasure to be back before this subcommittee to discuss financial management and overall business transformation efforts at the Department of Defense (DOD). At the outset, I would like to thank the subcommittee for having this hearing and acknowledge the important role hearings such as this one serve in addressing DOD's business transformation challenges. DOD spends billions of dollars each year to sustain key business operations that support our forces, including systems and processes related to acquisition and contract management, financial management, supply chain management, support infrastructure management, human capital management, and other key areas. Recent and ongoing military operations in Afghanistan and Iraq and new homeland defense missions have led to higher demands on our forces in a time of growing fiscal challenges for our Nation. In an effort to better manage DOD's resources, the Secretary of Defense has appropriately placed a high priority on transforming key business processes to improve their efficiency and effectiveness in supporting the Department's military mission. However, as our reports continue to show, fundamental problems with DOD's financial management and related business operations continue to result in substantial waste and inefficiency, adversely impact mission performance, and result in a lack of adequate transparency and appropriate accountability across all major business areas. Of the 25 areas on GAO's government-wide high-risk list, 6 are DOD program areas, and the Department shares responsibility for 3 other high-risk areas that are government-wide in scope.<sup>1</sup> The problems we continue to identify relate to human capital challenges, ineffective internal control and processes, and duplicative and nonintegrated business information, systems, and operations. The seriousness of weaknesses in DOD's business operations underscores the importance of no longer condoning the "status quo" at DOD.

Although, the Secretary and several key agency officials have shown commitment to transformation, as evidenced by key initiatives such as human capital reform, the Business Management Modernization Program (BMMMP), and the Financial Improvement Initiative, little tangible evidence of significant broad-based and sustainable improvements has been seen in DOD's business operations to date. Improvements have generally been limited to specific business process areas, such as DOD's purchase card program, and resulted in the incorporation of many key elements of reform, such as increased management oversight and monitoring and results-oriented performance measures. It is important to note that current business transformation initiatives are not integrated and lack many of the key elements that contributed to the success of the narrowly defined initiatives that I will highlight today.

For DOD to successfully transform its business operations, it will need a comprehensive and integrated business transformation plan; people with the skills, responsibility, and authority to implement the plan; an effective process and related tools, such as a Business Enterprise Architecture (BEA)<sup>2</sup>; and results-oriented performance measures that link institutional, unit, and individual personnel goals and expectations to promote accountability for results. Over the last 3 years, we have made a series of recommendations to DOD and suggested legislative changes that, if implemented, could help DOD move forward in establishing the means to successfully address the challenges it faces in transforming its business operations.<sup>3</sup> The

<sup>1</sup> GAO, High-Risk Series: An Update, GAO-03-119 (Washington, DC: January 2003). The nine interrelated high-risk areas that represent the greatest challenge to DOD's development of world-class business operations to support its forces are: contract management, financial management, human capital management, information security, support infrastructure management, inventory management, real property, systems modernization, and weapon systems acquisition.

<sup>2</sup> A BEA is a well-defined blueprint for operational and technological change. It generally consists of three integrated components: a snapshot of the enterprise's current operational and technological environment, a snapshot of its target environment, and a capital investment roadmap for transitioning from the current to the target environment.

<sup>3</sup> GAO, DOD Business Systems Modernization: Billions Continue to Be Invested with Inadequate Management Oversight and Accountability, GAO-04-615 (Washington, DC: May 27, 2004), Department of Defense: Further Actions Needed to Establish and Implement a Framework for Successful Financial and Business Management Transformation, GAO-04-551T (Washington, D.C., Mar. 23, 2004), DOD Business Systems Modernization: Important Progress Made to Develop Business Enterprise Architecture, but Much Work Remains, GAO-03-1018 (Wash-

Continued

framework that we have proposed includes several key elements for successful reform, recognizes the complexity of the challenges facing DOD in its efforts to transform the Department, and the long-term nature of overcoming these challenges. Moreover, it recognizes that the lack of clearly defined and sustained leadership, an enterprise architecture to guide and direct business operational changes, cultural resistance to change, and internal parochialism have impeded the success of previous reform efforts. DOD has agreed with our recommendations and launched efforts intended to implement many of them, but progress has been slow. Unless DOD can address the underlying causes that have contributed to the failure of previous broad-based reform efforts, improvements will remain marginal and confined to narrowly defined business process areas and incremental improvements in human capital policies, business processes, internal controls, and information technology systems.

Today, I will provide my perspectives on (1) the impact that longstanding weaknesses continue to have on the economy, efficiency, and effectiveness of DOD's business operations, (2) underlying causes that have impeded the success of prior efforts, (3) keys to successful reform, and (4) DOD business transformation efforts and interim improvements. In addition, while statutory requirements enacted recently as a part of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005<sup>4</sup> are a positive step towards improving leadership and accountability over DOD's systems transformation efforts, I will offer two suggestions for legislative consideration related to sustained top-level leadership, responsibility and accountability that would better permit the effective use of transition plans, processes, people, and tools and thereby increase the likelihood of successful business transformation. My statement is based on previous GAO reports and routine efforts to track the status of open recommendations, as well as on our review of the work of other Supreme Audit Institutions and DOD auditors, and recent DOD reports and studies. Our work was performed in accordance with generally accepted government auditing standards.

#### IMPACT OF FINANCIAL MANAGEMENT AND RELATED BUSINESS PROCESS WEAKNESSES

As I previously stated, and we have reported on for several years, DOD faces a range of challenges that are complex, longstanding, pervasive, and deeply rooted in virtually all major business operations throughout the Department. As I testified last March and as discussed in our latest financial audit report,<sup>5</sup> DOD's financial management deficiencies, taken together, continue to represent the single largest obstacle to achieving an unqualified (clean) audit opinion on the U.S. government's consolidated financial statements. While it is important to note that some DOD organizations, such as the Defense Finance Accounting Service (DFAS),<sup>6</sup> the Defense Contract Audit Agency, and the Office of the Inspector General, have clean audit opinions for fiscal year 2004, significant DOD components do not. To date, none of the military services has passed the test of an independent financial audit because of pervasive weaknesses in internal control and processes and fundamentally flawed business systems. Moreover, the lack of adequate transparency and appropriate accountability across DOD's major business areas results in billions of dollars of wasted resources annually at a time of growing fiscal constraints.

In identifying improved financial performance as one of its five government-wide initiatives, the President's Management Agenda recognized that obtaining an unqualified financial audit opinion is a basic prescription for any well-managed organization. At the same time, it recognized that without sound internal control and accurate and timely financial and performance information, it is not possible to accomplish the President's agenda and secure the best performance and highest measure

ington, DC: Sept. 19, 2003), DOD Financial Management: Integrated Approach, Transparency, and Incentives Are Keys to Effective Reform, GAO-02-497T (Washington, DC, Mar. 6, 2002), Defense Management: New Management Reform Program Still Evolving, GAO-03-58 (Washington, DC: Dec. 12, 2002), Information Technology: Architecture Needed to Guide Modernization of DOD's Financial Operations, GAO-01-525 (Washington, DC: May 17, 2001), and DOD Financial Management: Integrated Approach, Accountability, and Incentives Are Keys to Effective Reform, GAO-01-681T (Washington, DC: May 8, 2001).

<sup>4</sup>Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, §§ 332, 352, 118 Stat. 1811 (Oct. 28, 2004) (codified, in part, at 10 U.S.C. §§ 185, 2222).

<sup>5</sup>GAO, Fiscal Year 2003 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Future Fiscal Challenges, GAO-04-477T (Washington, DC: Mar. 3, 2004).

<sup>6</sup>DFAS's financial statements and corresponding audit opinion pertain only to the administrative functions of DFAS itself and, consequently, do not provide any assurance as to the reliability of the accounting processes and systems DFAS uses to provide services to other DOD components, including the military services.

of accountability for the American people. The Joint Financial Management Improvement Program (JFMIP)<sup>7</sup> principals have defined certain measures, in addition to receiving an unqualified financial statement audit opinion, for achieving financial management success. These additional measures include (1) being able to routinely provide timely, accurate, and useful financial and performance information, (2) having no material internal control weaknesses or material noncompliance with laws and regulations, and (3) meeting the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).<sup>8</sup> Unfortunately, DOD does not meet any of these conditions. For example, for fiscal year 2004, the DOD Inspector General issued a disclaimer of opinion on DOD's financial statements, citing 11 material weaknesses in internal control and noncompliance with FFMIA requirements.

Recent audits and investigations by GAO and DOD auditors continue to confirm the existence of pervasive weaknesses in DOD's financial management and related business processes and systems. These problems have (1) resulted in a lack of reliable information needed to make sound decisions and report on the status of DOD activities, including accountability of assets, through financial and other reports to Congress and DOD decisionmakers, (2) hindered its operational efficiency, (3) adversely affected mission performance, and (4) left the Department vulnerable to fraud, waste, and abuse, of which I have a few examples.

- 782 of the 829 mobilized Army National Guard and Reserve soldiers from 14 case study units we reviewed had at least one pay problem—including overpayments, underpayments, and late payments—associated with their mobilization. DOD's inability to provide timely and accurate payments to these soldiers, many of whom risked their lives in dangerous combat missions in Iraq or Afghanistan, distracted them from their missions, imposed financial hardships on the soldiers and their families, and has negatively impacted retention. (GAO-04-89, Nov. 13, 2003 and GAO-04-911, Aug. 20, 2004)
- DOD incurred substantial logistical support problems as a result of weak distribution and accountability processes and controls over supplies and equipment shipments in support of Operation Iraqi Freedom, similar to those encountered during the prior gulf war. These weaknesses resulted in (1) supply shortages, (2) backlogs of materials delivered in-theater but not delivered to the requesting activity, (3) a discrepancy of \$1.2 billion between the amount of materiel shipped and that acknowledged by the activity as received, (4) cannibalization of vehicles, and (5) duplicate supply requisitions. (GAO-04-305R, Dec. 18, 2003)
- Inadequate asset accountability also resulted in DOD's inability to locate and remove from its inventory over 250,000 defective chemical and biological protective garments known as battle dress overgarments (BDOs)—the predecessor of the new Joint Service Lightweight Integrated Suit Technology (JSLIST). Subsequently, we found that DOD had sold many of these defective suits to the public, including 379 that we purchased in an undercover operation. In addition, DOD may have issued over 4,700 of the defective BDO suits to local law enforcement agencies. Although local law enforcement agencies are most likely to be the first responders to a terrorist attack, DOD failed to inform these agencies that using these BDO suits could result in death or serious injury. (GAO-04-15NI, Nov. 19, 2003)
- Ineffective controls over Navy foreign military sales using blanket purchase orders placed classified and controlled spare parts at risk of being shipped to foreign countries that may not be eligible to receive them. For example, we identified instances in which Navy country managers (1) overrode the system to release classified parts under blanket purchase orders without filing required documentation justifying the release and (2) substituted classified parts for parts ordered under blanket purchase orders, bypassing the control-edit function of the system designed to check a country's eligibility to receive the parts. (GAO-04-507, June 25, 2004)
- DOD and congressional decisionmakers lack reliable data upon which to base sourcing decisions due to recurring weaknesses in DOD datagathering, reporting, and financial systems. As in the past, we have identified significant errors and omissions in the data submitted to Congress on the amount of each military service's depot maintenance work outsourced or performed

<sup>7</sup> JFMIP is a joint undertaking of the Office of Management and Budget, GAO, the Department of Treasury, and the Office of Personnel Management, working in cooperation with each other and with operating agencies to improve financial management practices throughout the government.

<sup>8</sup> Pub. L. No. 104-208, div. A., § 101(f), title VIII, 110 stat. 3009, 3009-389 (Sept. 30, 1996).

in-house. As a result, both DOD and Congress lack assurances that the dollar amounts of public-private sector workloads reported by the military services are reliable. (GAO-04-871, Sept. 29, 2004)

- Ineffective controls over DOD's centrally billed travel accounts led to millions of dollars wasted on unused airline tickets, reimbursements to travelers for improper and potentially fraudulent airline ticket claims, and issuance of airline tickets based on invalid travel orders. For example, we identified 58,000 airline tickets—primarily purchased in fiscal years 2001 and 2002—with a residual value of more than \$21 million that were unused and not refunded as of October 2003. On the basis of limited airline data, we determined that since 1997, the potential magnitude of DOD's unused tickets could be at least \$115 million. (GAO-04-825T, June 9, 2004 and GAO-04-398, Mar. 31, 2004)
- The Navy's lack of detailed cost information hinders its ability to monitor programs and analyze the cost of its activities. For example, we found that the Navy lacked the detailed cost and inventory data needed to assess its needs, evaluate spending patterns, and leverage its telecommunications buying power. As a result, we found that at the sites reviewed, the Navy paid for telecommunications services it no longer required, paid too much for services it used, and paid for potentially fraudulent or abusive long-distance charges. For instance, we found that DOD paid over \$5,000 in charges for one card that was used to place 189 calls in one 24-hour period from 12 different cities to 12 different countries. (GAO-04-671, June 14, 2004)
- DOD continues to use overly optimistic planning assumptions to estimate its annual budget request. These assumptions are reflected in its Future Years Defense Program (FYDP), which reports projected spending for the current budget year and at least 4 succeeding years. Such overly optimistic assumptions limit the visibility of costs projected throughout the FYDP period and beyond. As a result, DOD has too many programs for the available dollars, which often leads to program instability, costly program stretch-outs, and program termination. For example, in January 2003, we reported that the estimated costs of developing eight major weapons systems had increased from about \$47 billion in fiscal year 1998 to about \$72 billion by fiscal year 2003. In addition, in September 2004 the Congressional Budget Office projected that if the costs of weapons programs and certain other activities continued to grow as they have historically rather than as DOD currently projects, executing today's defense plans would require spending an average of \$498 billion a year through 2009. Without realistic projections, Congress and DOD will not have visibility over the full range of budget options available to achieve defense goals. (GAO-03-98, Jan. 2003 and GAO-04-514, May 7, 2004)
- DOD did not know the size of its security clearance backlog at the end of September 2003 and had not estimated this backlog since January 2000. Using September 2003 data, we estimated that DOD had a backlog of roughly 360,000 investigative and adjudicative cases, but the actual backlog size is uncertain. DOD's failure to eliminate and accurately assess the size of its backlog may have adverse affects. For example, delays in updating overdue clearances for personnel doing classified work may increase national security risks and slowness in issuing new clearances can increase the costs of doing classified government work. (GAO-04-344, Feb. 9, 2004)

These examples clearly demonstrate not only the severity of DOD's current problems, but also the importance of reforming the Department's business operations to more effectively support DOD's core mission, to improve the economy and efficiency of its operations, and to provide for transparency and accountability to Congress and American taxpayers.

#### UNDERLYING CAUSES OF FINANCIAL AND RELATED BUSINESS PROCESS TRANSFORMATION CHALLENGES

The underlying causes of DOD's financial management and related business process and system weaknesses are generally the same ones I have outlined in my prior testimonies before this subcommittee over the last 3 years. Unfortunately, DOD has made little progress in addressing these fundamental issues and thus is at high risk that its current major reform initiatives will fail. For each of the problems I cited previously, we found that one or more of these longstanding causes were contributing factors. Over the years, the Department has undertaken many well-intended initiatives to transform business operations Department-wide and improve the reliability

ity of information for decisionmaking and reporting. However, many of these efforts resulted in costly failures because the Department did not fully address the following four underlying causes of transformation challenges.

#### *Lack of Sustained Leadership and Management Accountability*

DOD has not routinely assigned accountability for performance to specific organizations or individuals who have sufficient authority, resource control, and continuity in their position to accomplish desired goals. In addition, top management has not had a proactive, consistent, and continuing role in integrating daily operations with business transformation-related performance goals. It is imperative that major improvement initiatives have the direct, active support and involvement of the Secretary and Deputy Secretary of Defense to ensure that daily activities throughout the Department remain focused on achieving shared, agency-wide outcomes and success. However, sustaining top management continuity and commitment to performance goals, long-term planning, and follow-through that will necessarily span several years is particularly challenging for DOD. For example, in fiscal year 2004, DOD's Comptroller, Deputy Under Secretary of Defense for Management Reform, and Deputy Chief Financial Officer—to whom the Secretary delegated the leadership role for key transformation initiatives—all resigned from the Department within a 5-month period. Moreover, the Department's primary transformation program—BMMP—has had three different directors responsible for leading the program since Secretary Rumsfeld initiated it a little over 3 years ago. Given the importance of DOD's business transformation effort, it is imperative that it receives sustained, focused department-wide leadership needed to improve the economy, efficiency, and effectiveness of DOD's business operations. As I will discuss in more detail later, we continue to advocate the establishment of a new executive position to provide strong and sustained leadership to the entire spectrum of DOD business transformation initiatives.

#### *Cultural Resistance and Parochialism*

The Department has acknowledged that it confronts decades-old problems deeply grounded in the bureaucratic history and operating practices of a complex, multi-faceted organization. Many of DOD's current operating practices and systems were developed piecemeal to accommodate different organizations, each with its own policies and procedures. As we have reported over the last 3 years,<sup>9</sup> DOD has continued to use a stovepiped approach to develop and fund its business system investments. The existing systems environment evolved over time as DOD components—each receives its own system funding and follows decentralized acquisition and investment practices—developed narrowly focused parochial solutions to their business problems. While the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005<sup>10</sup> more clearly defines the roles and responsibilities of business system investment approval authorities, control over the budgeting for and execution of funding for system investment activities remains at the component level. As I will discuss later, unless business systems modernization money is appropriated to those who are responsible and accountable for reform, DOD is at risk for continuing its current stovepiped approach to developing and funding system investments and failing to fundamentally improve its business operations. DOD's ability to address its current "business-as-usual" approach to business system investments is further hampered by its lack of an effective methodology and process for obtaining a complete picture of its current business systems environment—a condition we first highlighted in 1997.<sup>11</sup> In September 2004, DOD reported that the Department had identified over 4,000 business systems—up from the 1,731 the Department reported in October 2002. Unfortunately, due to its lack of an effective methodology and process for identifying business systems, including a clear definition of what constitutes a business system, DOD continues to lack assurance that its systems inventory is reliable. This lack of visibility over business systems in use throughout the Department hinders DOD's ability to identify and eliminate duplicate and nonintegrated systems and transition to an integrated systems environment.

#### *Lack of Results-Oriented Goals and Performance Measures*

At a programmatic level, the lack of clear, comprehensive, and integrated performance goals and measures has handicapped DOD's past reform efforts. As a re-

<sup>9</sup> GAO-01-681T, GAO-04-551T, GAO-03-1018, and GAO, DOD Business Systems Modernization: Limited Progress in Development of Business Enterprise Architecture and Oversight of Information Technology Investments, GAO-04-731R (Washington, DC: May 17, 2004).

<sup>10</sup> Pub. L. No. 108-375, § 332.

<sup>11</sup> GAO, Financial Management: DOD Inventory of Financial Management Systems is Incomplete, GAO/AIMD-97-29 (Washington, DC: Jan. 31, 1997).

sult, DOD managers lacked straightforward roadmaps showing how their work contributed to attaining the Department's strategic goals, and they risked operating autonomously rather than collectively. As of March 2004, DOD had formulated Department-wide performance goals and measures and continues to refine and align them with the outcomes described in its strategic plan—the September 2001 Quadrennial Defense Review (QDR). The QDR outlined a new risk management framework consisting of four dimensions of risk—force management, operational, future challenges, and institutional—to use in considering trade-offs among defense objectives and resource constraints. According to DOD's Fiscal Year 2003 Annual Report to the President and Congress, these risk areas are to form the basis for DOD's annual performance goals. They will be used to track performance results and will be linked to planning and resource decisions. As of October 2004, the Department was still in the process of implementing this approach department-wide. However, it remains unclear how DOD will use this approach to measure progress in achieving business reform.

As we reported in May 2004, DOD had yet to establish measurable, results-oriented goals for BMMP.<sup>12</sup> BMMP is the Department's major business transformation initiative encompassing defense policies, processes, people, and systems that guide, perform, or support all aspects of business management, including development and implementation of the BEA. A key element of any major program is its ability to establish clearly defined goals and performance measures to monitor and report its progress to management. The lack of BMMP performance measures has made it difficult to evaluate and track specific program progress, outcomes, and results, such as explicitly defined performance measures to evaluate the architecture's quality, content, and utility of subsequent major updates. Given that DOD had reported total obligations for BMMP of over \$203 million since architecture development began 3 years ago, with little tangible improvements in DOD operations, this is a serious performance management weakness.

Further, DOD has not established measurable criteria that decisionmakers must consider for its revised weapons system acquisition policy, issued in May 2003.<sup>13</sup> The revisions make major improvements to DOD acquisition policy by adopting knowledge-based, evolutionary practices used by successful commercial companies. However, DOD has not provided the necessary controls to ensure such an approach is followed. For example, the policy does not establish measures to gauge design and manufacturing knowledge at critical junctures in the product development process, allowing significant unknowns to be judged as acceptable risks. Without controls in the form of measurable criteria that decisionmakers must consider, DOD runs the risk of making decisions based on overly optimistic assumptions.

#### *Lack of Incentives for Change*

The final underlying cause of the Department's longstanding inability to carry out needed fundamental reform has been the lack of a clear linkage of institutional, unit, and individual results-oriented goals, performance measures, and reward mechanisms for making more than incremental changes to existing "business-as-usual" operations, systems, and organizational structures. Traditionally, DOD has focused on justifying its need for more funding rather than on the outcomes its programs have produced. DOD has historically measured its performance by resource components, such as the amount of money spent, people employed, or number of tasks completed. Incentives for its decisionmakers to implement behavioral changes have been minimal or nonexistent.

The lack of incentives to change is evident in the business systems modernization area. We have identified numerous business system modernization efforts that were not economically justified on the basis of cost, benefits, and risk; took years longer than planned; and fell far short of delivering planned or needed capabilities. Despite this track record, DOD continues to invest billions in business systems while at the same time it lacks the effective management and oversight needed to achieve real results. Without appropriate incentives and accountability mechanisms, as well as more centralized control of systems modernization funding, DOD components will continue to develop duplicative and nonintegrated systems that are inconsistent with the Secretary's vision for reform. To effect real change, actions are needed to (1) develop a well-defined blueprint for change, such as an enterprise architecture, that provides a common framework of reference for making informed system investment decisions, (2) adopt an investment decisionmaking model that uses the architecture to break down parochialism and reward behaviors that meet DOD-wide

<sup>12</sup> GAO-04-731R.

<sup>13</sup> GAO, Defense Acquisitions: DOD's Revised Policy Emphasizes Best Practices, but More Controls Are Needed, GAO-04-53 (Washington, DC: Nov. 10, 2003).

goals, (3) establish incentives that motivate decisionmakers to initiate and implement efforts that are consistent with better architecture and program outcomes, including saying "no" or pulling the plug early on a system or program that is failing, (4) address human capital issues, such as the adequacy of staffing level, skills, and experience available to achieve the institutional, unit, and individual objectives and expectations, and (5) facilitate a congressional focus on results-oriented management, particularly with respect to resource allocation decisions.

#### KEYS TO SUCCESSFUL REFORM AND CURRENT STATUS OF REFORM EFFORTS

The success of DOD's current broad-based business reform initiatives is threatened, as prior initiatives were, by DOD's continued failure to incorporate key elements that are critical to achieve successful reform. Any efforts at reform must include (1) a comprehensive, integrated business transformation plan, (2) personnel with the necessary skills, experience, responsibility, and authority to implement the plan, (3) effective processes and related tools, such as a BEA and business system investment decisionmaking controls, and (4) results-oriented performance measures that link institutional, unit, and individual personnel goals, measures, and expectations. Today, I would like to discuss three of those broad-based initiatives. In addition, I will briefly highlight some of the several smaller, more narrowly focused initiatives DOD has started in recent years that, through incorporation of many of the key elements, have been successful in making tangible improvements in DOD operations. Furthermore, I would like to reiterate two suggestions for legislative consideration that I believe are essential in order for DOD to be successful in its overall business transformation effort.

#### *Keys to Successful Reform*

As I have previously testified,<sup>14</sup> and as illustrated by the success of the more narrowly defined DOD initiatives I will discuss later, there are several key elements that collectively would

- enable the Department to effectively address the underlying causes of its inability to resolve its
- longstanding business management problems. These elements, which we believe are key to any
- successful approach to transforming the Department's business operations, include
- addressing the Department's financial management and related business operational challenges as part of a comprehensive, integrated, DOD-wide strategic plan for business reform;
- providing for sustained, committed, and focused leadership by top management, including but not limited to the Secretary of Defense;
- establishing resource control over business systems investments;
- establishing clear lines of responsibility, authority, and accountability;
- incorporating results-oriented performance measures that link key institutional, unit, and individual personnel transformation objectives and expectations, and monitoring progress;
- addressing human capital issues, such as the adequacy of staff levels, skills, and experience available to achieve the institutional, unit, and individual personnel performance goals and expectations;
- providing appropriate incentives or consequences for action or inaction;
- establishing an enterprise architecture to guide and direct business systems modernization investments; and
- ensuring effective oversight and monitoring.

These elements, which should not be viewed as independent actions but rather as a set of interrelated and interdependent actions, are reflected in the recommendations we have made to DOD over the last 3 years and are consistent with those actions discussed in the Department's April 2001 financial management transformation report.<sup>15</sup> The degree to which DOD incorporates them into its current reform efforts—both long and short term—will be a deciding factor in whether these efforts are successful. Thus far, the Department's progress in implementing our recommendations pertaining to its broad-based initiatives has been slow. Further, while the new legislation<sup>16</sup> on business systems oversight directs DOD to take action on some of these elements, we have not yet seen a comprehensive, cohesive,

<sup>14</sup> GAO-04-551T and GAO-02-497T.

<sup>15</sup> Department of Defense, *Transforming Department of Defense Financial Management: A Strategy for Change*, (Washington, DC: Apr. 13, 2001).

<sup>16</sup> Pub. L. No. 108-375, 8832.

and integrated strategy that details how some of the ongoing efforts are being integrated. For example, we have not seen how the Department plans to integrate its objective of obtaining an unqualified audit opinion in fiscal year 2007 with the BMMP.<sup>17</sup> It appears as if these two efforts are being conducted without the degree of coordination that would generally be expected between efforts that share similar objectives.

#### *Human Capital Initiative*

The first broad-based administrative initiative is effective implementation of the National Security Personnel System (NSPS). In November 2003, Congress authorized the Secretary of Defense to establish a new human capital management system—NSPS—for its civilian employees, which is modern, flexible, and consistent with the merit principles outlined by the act.<sup>18</sup> This legislation requires DOD to develop a personnel system that is consistent with many of the practices that we have identified as elements of an effective human capital management system, including a modern and results-oriented performance management system. For several years, we have reported<sup>19</sup> that many of DOD's business process and control weaknesses were attributable in part to human capital issues. For example, GAO audits of DOD's Army Reserve and National Guard payroll and the centrally billed travel card programs<sup>20</sup> further highlight the adverse impact that outdated and inadequate human capital practices, such as insufficient staffing, training, and monitoring of performance, continue to have on DOD business operations. If properly developed and implemented, NSPS could result in significant improvements to DOD's business operations.

I strongly support the need for modernizing Federal human capital policies both within DOD and for the entire Federal Government. Since April 2003, I have testified on four different occasions, including before this subcommittee, on NSPS and related DOD human capital issues.<sup>21</sup> In the near future, we will issue a summary of the forum GAO and the National Commission on the Public Service Implementation Initiative cohosted to advance the discussion of how human capital reform should proceed. Participants discussed whether there should be an overall government-wide framework for human capital reform and, if yes, what such a framework should include. While the forum neither sought nor achieved consensus on all of the issues identified in the discussion, there was broad agreement that there should be a government-wide framework to guide human capital reform built on a set of timeless beliefs and boundaries. Beliefs entail the fundamental principles that should govern all approaches to human capital reform and should not be altered or waived by agencies seeking human capital authorities. Boundaries include the criteria and processes that establish the checks and limitations when agencies seek and implement human capital authorities.

A modern, effective, credible, and integrated performance management system can help improve DOD's business operations. Specifically, such a performance management system aligns individual performance expectations with organizational goals and thus defines responsibility and assures accountability for achieving them.<sup>22</sup> In addition, a performance management system can help manage and direct a transformation process by linking performance expectations to an employee's role in the process. Individual performance and contributions are evaluated on com-

<sup>17</sup> GAO, *Financial Management: Further Actions Are Needed to Establish Framework to Guide Audit Opinion and Business Management Improvement Efforts at DOD*, GAO-04-910R (Washington, DC: Sept. 20, 2004).

<sup>18</sup> National Defense Authorization Act for Fiscal Year 2004, Pub. L. No. 108-136, § 1101, 117 Stat. 1392, 1621 (Nov. 24, 2003) (amending subpart I of part III of title 5, United States Code).

<sup>19</sup> GAO, *Major Management Challenges and Program Risks: Department of Defense*, GAO-01-244 (Washington, DC: Jan. 1, 2001).

<sup>20</sup> GAO, *Military Pay: Army Reserve Soldiers Mobilized to Active Duty Experienced Significant Pay Problems*, GAO-04-911, (Washington, DC: Aug. 20, 2004), *Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems*, GAO-04-89, (Washington, DC: Nov. 13, 2003), and *DOD Travel Cards: Control Weaknesses Led to Millions in Fraud, Waste, and Improper Payments*, GAO-04-825T, (Washington, DC: June 9, 2004).

<sup>21</sup> GAO, *Defense Transformation: Preliminary Observations on DOD's Proposed Civilian Personnel Reforms*, GAO-03-717T (Washington, DC: April 29, 2003); *Defense Transformation: DOD's Proposed Civilian Personnel System and Government-wide Human Capital Reform*, GAO-03-741T (Washington, DC: May 1, 2003); *Human Capital: DOD's Civilian Personnel Strategic Management and the Proposed National Security Personnel System*, GAO-03-493T (Washington, DC: May 12, 2003); *Building on DOD's Reform Effort to Foster Government-wide Improvements*, GAO-03-851T (Washington, DC: June 4, 2003).

<sup>22</sup> GAO, *Results-Oriented Cultures: Creating a Clear Linkage Between Individual Performance and Organizational Success*, GAO-03-488 (Washington, DC: Mar. 14, 2003).

petencies such as change management. Leaders, managers, and employees who demonstrate these competencies are rewarded for their success in contributing to the achievement of the transformation process.

There are significant opportunities to use the performance management system to explicitly link senior executive expectations for performance to results-oriented goals. There is a need to hold senior executives accountable for demonstrating competencies in leading and facilitating change and fostering collaboration both within and across organizational boundaries to achieve results. Setting and meeting expectations such as these will be critical to achieving needed transformation changes. Recently, Congress established a new performance-based pay system for members of the Senior Executive Service (SES) that is designed to provide a clear and direct link between SES performance and pay. An agency can raise the pay cap for its senior executives if the agency's performance management system makes meaningful distinctions based on relative performance.<sup>23</sup> This visible step in linking pay to the achievement of measurable performance goals within a context of a credible human capital system that includes adequate safeguards is helpful in constructing a results-oriented culture.

In my March 2004 testimony on DOD's financial management and related business management transformation efforts,<sup>24</sup> I stated that as DOD develops regulations to implement its new human capital management system, the Department needs to do the following:

- Ensure the active involvement of the Office of Personnel Management in the development process, given the significant implications that changes in DOD regulations may have on government-wide human capital policies.<sup>25</sup> In this regard, the Office of Personnel Management has assigned a senior representative to support and advise DOD on the development of jointly prescribed NSPS regulations and the implementation of NSPS.
- Ensure the involvement of civilian employees and unions in the design and development of a new personnel system. The law calls for DOD to involve employees, especially in the design of its new performance management system. Involving employees in planning helps to develop agency goals and objectives that incorporate insights about operations from a front-line perspective. It can also serve to increase employees' understanding and acceptance of organizational goals and improve motivation and morale. In this regard, DOD has launched a new Web site to educate its employees about the new National Security Personnel System. In addition, DOD leadership has indicated that it has sought input from civilian employees through town hall meetings, focus groups, and discussions with union leaders.
- Use a phased approach to implement the system, recognizing that different parts of the organization will have different levels of readiness and different capabilities to implement new authorities. A phased approach allows for learning so that appropriate adjustments and midcourse corrections can be made before the regulations are fully implemented department-wide. In this regard, DOD had initially indicated that it planned to implement its new human capital system for 300,000 civilian employees by October 1, 2004. DOD has since indicated that it has adjusted its timelines to reflect a more cautious, deliberative approach involving more stakeholders. DOD has now indicated that it plans to phase in its new human capital system beginning in July 2005.

We are currently evaluating DOD's NSPS design process and look forward to sharing our findings with Congress upon completion of our review.

#### *Business Management Modernization Program*

While BMMP<sup>26</sup> is vital to the Department's efforts to transform its business operations, DOD has not effectively addressed many of the impediments to successful

<sup>23</sup> GAO, Human Capital: Senior Executive Performance Management Can Be Significantly Strengthened to Achieve Results, GAO-04-614 (Washington, DC: May 26, 2004).

<sup>24</sup> GAO-04-551T.

<sup>25</sup> GAO-03-717T.

<sup>26</sup> Originally named the Financial Management Modernization Program, BMMP was chartered in July 2001 to oversee the development of the financial management enterprise architecture. Such an architecture was required by 10 U.S.C. § 185(b)(4) and by section 1004 of the Bob Stump National Defense Authorization Act for Fiscal Year 2003. Pub. L. No. 107-314, § 116, Stat. 2458, 2629 (Dec. 2, 2002). The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 now requires DOD (through the Defense Business Systems Management Com-

Continued

reform that I mentioned earlier, including (1) a lack of sustained, effective, and focused leadership, (2) a lack of results-oriented goals and performance measures, and (3) longstanding cultural resistance and parochialism. As a result, the program has yielded very little, if any, tangible improvements in DOD's business operations. We have made numerous recommendations to DOD that center on the need to incorporate the key elements to successful reform, which I discussed previously, into the program. In May 2004 we reported<sup>27</sup> that no significant changes had been made to the architecture since the initial version was released. Further, we reported that DOD had not yet adopted key architecture management best practices, such as assigning accountability and responsibility for directing, overseeing, and approving the architecture and explicitly defining performance metrics to evaluate the architecture's quality, content, and utility. For these and other reasons, DOD's verification and validation contractor concluded that this latest version of the architecture retained most of the critical problems of the initial version, such as how the architecture should be used by the military services and other DOD components in making acquisition and portfolio investment decisions. I will now expand on the problems facing BMMP.

The purpose of BMMP is to provide world-class mission support to the warfighter through transformation of DOD's business processes and systems. A key element of BMMP is the development and implementation of a well-defined BEA. Properly developed and implemented, a BEA can provide assurance that the Department invests in integrated enterprise-wide business solutions and, along with effective project management and resource controls, it can be instrumental in developing corporate-wide solutions and moving resources away from nonintegrated business system development efforts. As we reported in July 2003,<sup>28</sup> DOD had developed an initial version of BEA and had expended tremendous effort and resources in doing so. However, we also reported that substantial work remains before the architecture would be sufficiently defined to have a tangible impact on improving DOD's overall business operations. In May 2004, we reported<sup>29</sup> that after about 3 years of effort and over \$203 million in reported obligations for BMMP operations, BEA's content and DOD's approach to investing billions of dollars annually in existing and new systems had not changed significantly. Under a provision in the recently enacted Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005,<sup>30</sup> DOD must develop an enterprise architecture to cover all defense business systems and related business functions and activities that is sufficiently defined to effectively guide, constrain, and permit implementation of a corporate-wide solution and is consistent with the policies and procedures established by the Office of Management and Budget. Further, the act requires the development of a transition plan that includes not only an acquisition strategy for new systems, but also a listing of the termination dates of current legacy systems that will not be part of the corporate-wide solution, as well as a listing of legacy systems that will be modified to become part of the corporate-wide solution for addressing DOD's business management deficiencies. Transforming DOD's business operations and making them more efficient through the elimination of nonintegrated and noncompliant legacy systems would free up resources that could be used to support the Department's core mission, enhance readiness, and improve the quality of life for our troops and their families.

I cannot overemphasize the degree of difficulty DOD faces in developing and implementing a well-defined architecture to provide the foundation that will guide its overall business transformation. The Department's business transformation depends on its ability to develop and implement business systems that provide corporate solutions. Successful implementation of corporate solutions through adherence to a well-defined enterprise architecture and effective project management and fund control would go a long way toward precluding the continued proliferation of duplicative, stovepiped systems and reduce spending on multiple systems that are supposed to perform the same function. Without these things, we have continued to see<sup>31</sup> that DOD is still developing systems that are not designed to solve corporate-wide problems.

For example, the Defense Logistics Agency's (DLA) Business Systems Modernization (BSM) and the Army's Logistics Modernization Program (LMP), both of which

mittee) to develop a business enterprise architecture and a transition plan by September 2005, covering all defense business systems. See 10 U.S.C. § 2222(c).

<sup>27</sup> GAO-04-731R.

<sup>28</sup> GAO, Business Systems Modernization: Summary of GAO's Assessment of the Department of Defense's Initial Business Enterprise Architecture, GAO-03-877R (Washington, DC: July 7, 2003).

<sup>29</sup> GAO-04-731R.

<sup>30</sup> Codified at 10 U.S.C. § 2222 (c)-(e).

<sup>31</sup> GAO-04-615.

were initiated prior to commencement of the BEA effort, were not directed towards a corporate solution to the Department's longstanding weaknesses in inventory and logistics management, such as the lack of total asset visibility. Rather, both projects focused on their respective entity's inventory and logistics management operations. As a result, neither project will provide asset visibility beyond the stovepiped operation for which they were designed. For example, BSM is only designed to provide visibility over the items within the DLA environment—something DLA has stated already exists within its current system environment. As a result, DOD continues to lack the capability to identify the exact location of items, such as defective chemical and biological protective suits, that were distributed to end-users, such as the military services, or sold to the public. The Department would have to resort to inefficient and ineffective data calls, as it has done in the past, to identify and withdraw defective items from use.<sup>32</sup>

Another major impediment to the successful transformation of DOD's business systems is funds control. DOD invests billions of dollars annually to operate, maintain, and modernize its business systems. For fiscal year 2004, the Department requested approximately \$28 billion in IT funding to support a wide range of military operations as well as DOD business systems operations, of which DOD reported that approximately \$18.8 billion<sup>33</sup>—\$5.8 billion for business systems and \$13 billion for business systems infrastructure—relates to the operation, maintenance, and modernization of the Department's reported thousands of business systems. The \$18.8 billion is spread across the military services and defense agencies, with each receiving and controlling its own funding for IT investments. Although the recently enacted Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 more clearly defines the roles and responsibilities of business system investment approval authorities, control over the budgeting for and execution of funding for system investment activities remains at the component level. Under a provision in the act,<sup>34</sup> effective October 1, 2005, DOD must identify each defense system for which funding is proposed in its budget, including the identification of all funds, by appropriation, for current services (to operate and maintain the system) and modernization. Further, DOD may not obligate funds for a defense business system modernization that will have a total cost in excess of \$1 million unless specific conditions called for in the act are met.<sup>35</sup> The Defense Business Systems Management Committee, also required by the act to be established, must then approve the designated approval authorities'<sup>36</sup> certification before funds can be obligated. Further, obligation of funds for modernization programs without certification and approval by the Defense Business Systems Management Committee is deemed a violation of the Anti-Deficiency Act.<sup>37</sup> Although proper implementation of this legislation should strengthen oversight of DOD's systems modernization efforts, it is questionable whether DOD has developed or improved its processes and procedures to identify and control system investments occurring at the component level. Unless DOD establishes effective processes and controls to identify and control system investments occurring within DOD components and overcome parochial interests when corporate-wide solutions are more appropriate, it will lack the ability to ensure compliance with the act.

We fully recognize that developing and implementing an enterprise architecture for an organization as large and complex as DOD is a formidable challenge. Nevertheless, a well-defined architecture is essential to enabling some of the elements for successful reform that I discussed earlier. Accordingly, we remain supportive of the

<sup>32</sup> GAO, Chemical and Biological Defense: Improved Risk Assessment and Inventory Management Are Needed, GAO-01-667 (Washington, DC: Sept. 28, 2001).

<sup>33</sup> The remaining \$9 billion is for national security systems. These systems are intelligence systems, cryptologic activities related to national security, military command and control systems, and equipment that is an integral part of a weapon or weapons system or is critical to the direct fulfillment of military or intelligence missions.

<sup>34</sup> Codified at 10 U.S.C. § 2222 (a).

<sup>35</sup> A key condition identified in the act includes certification by designated approval authorities that the defense business system modernization is (1) in compliance with the enterprise architecture, (2) necessary to achieve critical national security capability or address a critical requirement in an area such as safety or security or (3) necessary to prevent a significant adverse effect on a project that is needed to achieve an essential capability, taking into consideration the alternative solutions for preventing such an adverse effect.

<sup>36</sup> Approval authorities, including the Under Secretary of Defense for Acquisition, Technology, and Logistics; the Under Secretary of Defense (Comptroller); the Assistant Secretary of Defense for Networks and Information Integration and the Chief Information Officer of the Department of Defense, and the Deputy Secretary of Defense or Under Secretary of Defense, as designated by the Secretary of Defense, are responsible for the review, approval, and oversight of business systems and must establish investment review processes for systems under their cognizance.

<sup>37</sup> 31 U.S.C. § 1341(a)(1)(A); see 10 U.S.C. § 2222(b).

need for BMMP, but are deeply concerned about the program's lack of meaningful progress and inability to address management challenges. Accordingly, we plan to continue working constructively with the Department to strengthen the program and will report to this subcommittee on DOD's progress and challenges in the spring of 2005.

#### *Financial Improvement Initiative*

While DOD's former Comptroller started the financial improvement initiative with the goal of obtaining an unqualified audit opinion for fiscal year 2007 on its department-wide financial statements, we found that the initiative was simply a goal that lacked a clearly defined, well-documented, and realistic plan to make the stated goal a reality.

In September 2004 we reported<sup>38</sup> that DOD's financial improvement initiative lacked several of the key elements critical to success, including: (1) a comprehensive, integrated plan; (2) results-oriented goals and performance measures; and (3) effective oversight and monitoring. Specifically, we found that DOD had not established a framework to integrate the improvement efforts planned by DOD components with broad-based DOD initiatives such as human capital and BMMP. Rather, DOD intended to rely upon the collective efforts of DOD components, as shown in their discrete plans, to address its financial management deficiencies while at the same time continuing its broad-based initiatives. However, the component plans we reviewed did not consistently identify whether a proposed corrective action included a manual work-around or business system enhancement or replacement. Further, the component plans lacked sufficient information regarding human capital needs, such as the staffing level and skills required to implement and sustain the plans. In addition, as we have previously reported,<sup>39</sup> the Department currently lacks a mechanism to effectively identify, monitor, and oversee business system investments, including enhancements, occurring within the Department. Because of this lack of visibility over how DOD components plan to advance their financial management functionality, the DOD Comptroller and BMMP may not have sufficient information to assess the feasibility of a work-around or to review and approve all modifications to existing legacy business systems to ensure that they: (1) are sound investments, (2) optimize mission performance and accountability, and (3) are consistent with applicable requirements and key architectural elements in DOD's business enterprise architecture.

In addition, our review of key individual component plans revealed that the plans varied in levels of detail, completeness, and scope, such that it will be difficult for DOD Comptroller staff to use the departmental database of component plans it was developing to oversee and monitor component efforts. We found that the component plans did not consistently identify how staff (human capital), processes, or business systems would be changed to implement corrective actions. Such changes are key elements in assessing the adequacy of a component's plan and in monitoring progress and sustainability.

Further, DOD lacked effective oversight and accountability mechanisms to ensure that the plans are implemented and corrective actions are sustainable. The database the Department is currently using was not integrated electronically with subordinate component plans and the milestone dates identified in the component plans were generally based on assertion dates prescribed by the DOD Comptroller and not on actual estimates of effort required. Furthermore, task dependencies were not clearly identified, including critical corrective tasks that would need to be completed in order for the fiscal year 2007 audit opinion to be achieved.

On the positive side, DOD had developed business rules,<sup>40</sup> which if implemented as planned, should clearly establish a process for ensuring that corrective actions, as described in the component plans, are implemented and validated in order to minimize the Department's risk of unsupported claims by DOD components that reported financial information is auditable. Further, the business rules clearly recognize that management, not the auditor, is responsible for documenting business processes, systems, and internal control for collecting and maintaining transaction data. In addition, DOD's involvement of its components in developing and implementing solutions to longstanding deficiencies in their business operations under this initiative is a critical and positive step toward obtaining the commitment and buy-in that has not been readily apparent in BMMP. Further, the recently enacted

<sup>38</sup> GAO-04-910R.

<sup>39</sup> GAO-04-615.

<sup>40</sup> Business rules are statements of fact, policy, law, regulation, or a combination of these that drive business activities.

Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005<sup>41</sup> has placed a limitation on continued preparation or implementation of DOD's financial improvement initiative pending a report to congressional defense committees containing the following: (1) a determination that BEA and the transition plan have been developed, as required by section 332 of the act, (2) an explanation of the manner in which fiscal year 2005 operation and maintenance funds will be used by DOD components to prepare or implement the midrange financial improvement plan, and (3) an estimate of future year costs for each DOD component to implement the plan. DOD Comptroller staff acknowledged that their goal was ambitious, but believed that they were in the process of laying a framework, which they believe would address our issues, to facilitate movement towards sustainable financial management improvements and eventually obtain an unqualified audit opinion.

#### *Interim Initiatives*

In contrast to its broad-based initiatives, DOD has incorporated many of the key elements for successful reform in its interim initiatives. As the following examples demonstrate, leadership, real incentives, accountability, and oversight and monitoring were clearly key elements in DOD's efforts to improve its operations. For example, the former DOD Comptroller developed a Financial Management Balanced Scorecard that is intended to align the financial community's strategy, goals, objectives, and related performance measures with the department-wide risk management framework established as part of DOD's Quadrennial Defense Review, and with the President's Management Agenda. To effectively implement the balanced scorecard, the DOD Comptroller has cascaded the performance measures down to the military services and defense agency financial communities, along with certain specific reporting requirements. At the Department-wide level, certain financial metrics are selected, consolidated, and reported to the top levels of DOD management for evaluation and comparison. These "dashboard" metrics are intended to provide key decisionmakers, including Congress, with critical performance information at a glance, in a consistent and easily understandable format.

DFAS has been reporting the metrics cited below for several years, which under the leadership of DFAS's Director and DOD's Comptroller, have reported improvements including the following.

- From April 2001 to September 2004, DOD reduced its commercial pay backlogs (payment delinquencies) by 72 percent.
- From March 2001 to September 2004, DOD reduced its payment recording errors by 77 percent.
- From September 2001 to September 2004, DOD reduced its delinquency rate for individually billed travel cards from 9.4 percent to 4.3 percent.

Using DFAS's metrics, management can quickly see when and where problems are arising and can focus additional attention on those areas. While these metrics show significant improvements from 2001 to today, our report last year on DOD's metrics program<sup>42</sup> included a caution that, without modern integrated systems and the streamlined processes they engender, reported progress may not be sustainable if workload is increased.

DOD and the military services have also acted to improve their oversight and monitoring of the Department's purchase card program and have taken actions, that when fully implemented, should effectively address all of our 109 recommendations. For example, they issued policy guidance on monitoring charge card activity and disciplinary actions that will be taken against civilian or military employees who engage in improper, fraudulent, abusive, or negligent use of a government charge card. In addition, they substantially reduced the number of purchase cards issued. According to the General Services Administration records, DOD had reduced the total number of purchase cards from about 239,000 in March 2001 to about 131,875 in June 2004. These reductions have the potential to significantly improve the management of this program.

Further, the DOD Inspector General (IG) and the Navy have prototyped and are now expanding a data-mining capability to screen for and identify high-risk transactions (such as potentially fraudulent, improper, and abusive use of purchase cards) for subsequent investigation. On April 28, 2004, the DODIG testified<sup>43</sup> on

<sup>41</sup> Pub. L. No. 108-375, § 352.

<sup>42</sup> GAO, *Financial Management: DOD's Metrics Program Provides Focus for Improving Performance*, GAO-03-457, (Washington, DC: Mar. 28, 2003).

<sup>43</sup> Department of Defense, Office of the Inspector General, Statement of David K. Steensma, Assistant Inspector General, Contract Management, COL William J. Kelley, Program Director, Data Mining Division, Office of the Inspector General of the Department of Defense to the Sen-

Continued

ways the Department could save money through the prudent use of government purchase cards. The testimony highlighted improvements made in the management of the Department's purchase card program and areas for which additional improvements are needed. Specifically, the testimony identified actions the DODIG had taken to partner with the DOD purchase card program management offices so that DOD could more proactively identify and prevent potential fraud, waste, and mismanagement. However, more still needs to be done because the testimony also discussed more than \$12 million in fraudulent, wasteful, or abusive purchases identified by the DODIG.

In addition to the oversight and monitoring performed by DOD over these business areas, we believe that consistent congressional oversight played a major role in bringing about these improvements in DOD's purchase and travel card programs. From 2001 through 2004, 10 separate congressional hearings were held on DOD's purchase and travel card programs. Numerous legislative initiatives aimed at improving DOD's management and oversight of these programs also had a positive impact. Most recently, the fiscal year 2005 Defense Appropriations Act<sup>44</sup> reduced DOD's appropriation by \$100 million to "limit excessive growth" in DOD's travel expenses.

Another important initiative underway at the Department pertains to the quarterly financial statement review sessions held by the DOD Comptroller, which have led to the discovery and correction of numerous recording and reporting errors. Under the leadership of DOD's former Comptroller, and continuing under its new leadership, DOD is working to instill discipline into its financial reporting processes to improve the reliability of the Department's financial data. Specifically, the DOD Comptroller requires DOD's major components to prepare quarterly financial statements along with extensive footnotes that explain any improper balances or significant variances from previous year quarterly statements. All of the statements and footnotes are analyzed by Comptroller office staff and reviewed by the Comptroller. In addition, the midyear and end-of-year financial statements must be briefed to the DOD Comptroller by the military service Assistant Secretary for Financial Management or the head of the defense agency. Under DOD's former Comptroller, GAO and the DODIG were invited to observe several of these briefings and noted that the practice of preparing and explaining interim financial statements has improved the reliability of reported information through more timely discovery and correction of numerous recording and reporting errors. Although these meetings are continuing under the current Comptroller, GAO and the DODIG have not been invited to attend.

#### *Suggestions for Legislative Consideration*

I would like to reiterate two suggestions for legislative consideration that I discussed in my testimony last March, which I believe could further improve the likelihood of successful business transformation at DOD. Most of the key elements necessary for successful transformation could be achieved under the current legislative framework; however, addressing sustained and focused leadership for DOD business transformation and funding control will require additional legislation. These suggestions include the creation of a chief management official and the appropriation of business system investment funding to the approval authorities responsible and accountable for business system investments under provisions enacted by the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005.<sup>45</sup>

#### *Chief Operating Officer/Chief Management Official*

While the Secretary and other key DOD leaders have demonstrated their commitment to the current business transformation efforts, in our view, the complexity and long-term nature of these efforts requires the development of an executive position capable of providing strong and sustained executive leadership—over a number of years and various administrations. The day-to-day demands placed on the Secretary, the Deputy Secretary, and others make it difficult for these leaders to maintain the oversight, focus, and momentum needed to resolve the weaknesses in DOD's overall business operations. This is particularly evident given the demands that the Iraq and Afghanistan postwar reconstruction activities and the continuing war on terrorism have placed on current leaders. Likewise, the breadth and complexity of the problems preclude the under secretaries, such as the DOD Comptrol-

ate Committee Governmental Affairs on How to Save the Taxpayers Money Through Prudent Use of the Purchase Card, D-2004-076-T (Arlington, VA: Apr. 28, 2004).

<sup>44</sup>Department of Defense Appropriations Act, 2005, Pub. L. No. 108-287, § 8141, 118, Stat. 951, 1003 (Aug. 5, 2004).

<sup>45</sup>Pub. L. No. 108-375, § 332.

ler, from asserting the necessary authority over selected players and business areas while continuing to fulfill their other responsibilities.

While sound strategic planning is the foundation upon which to build, sustained and focused leadership is needed for reform to succeed. One way to ensure sustained leadership over DOD's business transformation efforts would be to create a full-time executive-level II position for a chief operating officer or chief management official (COO/CMO), who would serve as the Principal Under Secretary of Defense for Management.<sup>46</sup> This position would elevate, integrate, and institutionalize the attention essential for addressing key stewardship responsibilities, such as strategic planning, human capital management, performance and financial management, acquisition and contract management, and business systems modernization, while facilitating the overall business transformation operations within DOD.

The COO/CMO concept is consistent with the commonly agreed-upon governance principle that there needs to be a single point within agencies with the perspective and responsibility—as well as authority—to ensure the successful implementation of functional management and transformation efforts. Governments around the world, such as the United Kingdom and Ireland, have established term appointed positions, similar to the COO/CMO concept we propose, that are responsible for advancing and continuously improving agency operations.

The DOD COO/CMO position could be filled by an individual, appointed by the President and confirmed by the Senate, for a set term of 7 years with the potential for reappointment. Articulating the roles and responsibilities of the position in statute helps to create unambiguous expectations and underscores Congress' desire to follow a professional, nonpartisan approach to the position. In that regard, such an individual should have a proven track record as a business process change agent in large, complex, and diverse organizations—experience necessary to spearhead business process transformation across the department and serve as an integrator for the needed business transformation efforts. In addition, this individual would enter into an annual performance agreement with the Secretary that sets forth measurable individual goals linked to overall organizational goals in connection with the department's business transformation efforts. Measurable progress towards achieving agreed-upon goals would be a basis for determining the level of compensation earned, including any related bonus. In addition, this individual's achievements and compensation would be reported to Congress each year.

#### *Funding Control over System Investments*

DOD's current systems investment process in which system funding is controlled by DOD components has contributed to the evolution of an overly complex and error-prone information technology environment containing duplicative, non-integrated, and stovepiped systems. We have made numerous recommendations to DOD intended to improve the management oversight and control of its business systems modernization investments. However, as previously mentioned, progress in achieving this control has been slow. Recent legislation,<sup>47</sup> consistent with the suggestion I made in my prior testimony, established specific management oversight and accountability with the "owners" of the various functional areas or domains. The legislation defined the scope of the various business areas (e.g., acquisition, logistics, finance and accounting) and established functional approval authority and responsibility for management of the portfolio of business systems with the relevant Under Secretary of Defense for the Departmental Domains and the Assistant Secretary of Defense for Networks and Information Integration (information technology infrastructure). For example, the Under Secretary of Defense for Acquisition, Technology, and Logistics is now responsible and accountable for any defense business system intended to support acquisition activities, logistics activities, or installations and environment activities for DOD.

The legislation also requires that the responsible approval authorities establish a hierarchy of investment review boards with DOD-wide representation, including the military services and Defense agencies. The boards are responsible for reviewing and approving investments to develop, operate, maintain, and modernize business systems for their business area portfolio, including ensuring that investments are consistent with DOD's BEA.

<sup>46</sup> On September 9, 2002, GAO convened a roundtable of government leaders and management experts to discuss the chief operating officer concept. For more information see GAO, *Highlights of a GAO Roundtable: The Chief Operating Officer Concept: A Potential Strategy to Address Federal Governance Challenges*, GAO-03-192SP (Washington, DC: Oct. 4, 2002) and *The Chief Operating Officer Concept and its Potential Use as a Strategy to Improve Management at the Department of Homeland Security*, GAO-04-876R (Washington, DC: June 28, 2004).

<sup>47</sup> Pub. L. No. 108-375, § 332.

Although the new legislation clearly assigns responsibility and accountability for system modernization to designated approval authorities, control over system investment funding remains at the DOD component level. As a result, DOD continues to have little or no assurance that its business systems modernization investment money is being spent in an economical, efficient, and effective manner. Given that DOD spends billions on business systems and related infrastructure each year, we believe it is critical that funds for DOD business systems be appropriated to those responsible and accountable for business system improvements. However, implementation may require review of the various statutory authorities for the military services and other DOD components. Control over the funds would improve the capacity of DOD's designated approval authorities to fulfill their responsibilities and transparency over DOD investments, and minimize the parochial approach to systems development that exists today. In addition, to improve coordination and integration activities, we suggest that all approval authorities coordinate their business system modernization efforts with the chief management official who would chair the Defense Business Systems Management Committee. Cognizant business area approval authorities would also be required to report to Congress through the chief management official and the Secretary of Defense on applicable business systems that are not compliant with review requirements and to include a summary justification for noncompliance.

#### CONCLUSION

The United States is facing large and growing long-term fiscal pressures created by the impending retirement of the baby boom generation, rising health care costs, increased homeland security and defense commitments, and a reduction in Federal revenues. These pressures not only sharpen the need to look at competing claims on existing Federal budgetary resources and emerging new priorities, they underscore the need for transparent and reliable information upon which to base decisions at all levels within the Federal Government. This includes timely, useful, and reliable financial and management information that demonstrates what results are being achieved and what risks are being incurred by various government programs, functions, and activities. As I have discussed, DOD lacks the efficient and effective financial management and related business operations, including processes and systems, to support the warfighter, DOD management, and Congress. With a large and growing fiscal imbalance facing our Nation, achieving tens of billions of dollars of annual savings through successful DOD transformation is increasingly important. DOD's senior leaders have demonstrated a commitment to transforming the department and improving its business operations. Recent legislation pertaining to defense business systems, enterprise architecture, accountability, and modernization, if properly implemented, should improve oversight and control over DOD's significant system investment activities. However, DOD's transformation efforts and legislation to date have not adequately addressed key underlying causes of past reform failures. Successful transformation will require an effective transformation plan; adequate human capital; effective processes and transformation tools, such as a BEA; and results-oriented performance measures that link institutional, unit, and individual personnel goals and expectations. Reforming DOD's business operations is a monumental challenge and many well-intentioned efforts have failed over the last several decades. Lessons learned from these previous reform attempts include the need for sustained and focused leadership at the highest level, with appropriate authority over all of DOD's business operations, as well as centralized control of all business transformation-related funding with the designated approval authorities assigned responsibility for transformation activities within their specific business process areas. This leadership could be provided through the establishment of a Chief Operating Officer/Chief Management Official. Absent this leadership, authority, and control of funding, the current transformation efforts are likely to fail.

I commend the subcommittee for holding this hearing and I encourage you to use this vehicle, on an annual basis, as a catalyst for long overdue business transformation at DOD.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions you or other members of the Subcommittee may have at this time.

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Senator ENSIGN. Thank you.  
Secretary Jonas.

**STATEMENT OF HON. TINA W. JONAS, UNDER SECRETARY OF DEFENSE (COMPTROLLER)**

Secretary JONAS. Mr. Chairman and members of the subcommittee, I appreciate this opportunity to discuss our progress concerning financial management and the transformation of our business systems and processes in the Department of Defense. Before doing that, I want to thank the committee for your strong support of the men and women of our Armed Forces and their families.

Turning now to business transformation, I am glad to be back in the Department of Defense and to help lead this critically important work. In the few months that I have had to review our transformation efforts, I have found that the Department is making progress. However, we have difficult challenges to overcome. We recognize that we must change how we do business in the Department of Defense in order to meet the changing requirements of our Armed Forces, and we are committed to providing the best possible support to our men and women in uniform through improved business processes and financial management.

Mr. Chairman, I have a written statement for the record that includes additional details of our progress, and I would just like to summarize a few points of the effort. There are two integrated efforts the Department has focused on. The first is the financial improvement initiative, which focuses on efforts to identify and correct reporting deficiencies, as well as lay the framework and foundation for systems improvements.

The second piece, as the Comptroller General has just noted, is the business management modernization program, which focuses on modernizing business systems. I think we have made some progress in both areas and that we have some measurable results.

In 2001, as David mentioned, the Department had only three organizations that had a clean audit. The Department has made some progress. We expect six clean opinions this year, with possibly seven, and one qualified opinion. We have made some progress on our material weaknesses. We have eliminated 2 and we are working and focusing on the remaining 11.

We certainly agree with the concerns of many that we should not attempt to obtain a clean opinion with heroic efforts. But we also believe that there are improvements that can be made in order to strengthen our internal controls, correct weaknesses, and again lay the groundwork for systems improvements.

The financial improvement initiative has given us insight into the actions required to resolve our reporting deficiencies without wasting audit resources, and we are integrating the financial improvement plans with the business enterprise architecture.

The BMMP, as I have said, the goal of the BMMP is to improve efficiency and effectiveness of our business operations and to provide the Department's management with accurate and timely information. We believe that achieving this goal will ultimately save millions, but more importantly it will allow us to channel limited resources to the warfighting mission of the Department.

This is a large and complex undertaking, but we are energized by the potential benefits that the program will deliver. Just briefly, I would like to comment that we do believe that we have a good framework, a good road map. The Business Enterprise Architecture (BEA) does provide a road map for transformation. We are working on additional versions of that, but to date the architecture defines or depicts 90 core business processes, and we have incorporated 25,000 of 180,000 business rules, which is very important.

I think Senator Levin mentioned that we had not provided standard data elements, and that is what this does. So it is a substantial and important aspect of that.

We have established a consolidated information technology repository, which includes our major information systems and allows us to do portfolio management, which gets at controlling spending on many of these systems. We expect to this year review 132 systems, which represents 80 percent of the development and modernization budget for information business systems. We have an ambitious goal for this year.

We appreciate the provisions of the National Defense Authorization Act that will help us strengthen our governance. The Defense Business Systems Management Committee, which was part of the National Defense Authorization Act for Fiscal Year 2005, we think will be very helpful and includes—it will be chaired by the Deputy Secretary of Defense and that should be very useful. Again, the Comptroller General mentioned the domain owners and their participation in certifying.

So I would just like to thank you and emphasize our commitment to improve the way we do business. We hope that what we do will help transform our capabilities in the Department of Defense. Again, we just want to reiterate our grateful thanks for the committee's help and support.

So, Mr. Chairman, I thank you and look forward to answering your questions.

[The prepared statements of Ms. Jonas, Ms. Baldwin, Mr. Greco, Mr. Montelongo, and the Air Force Financial Management Strategic Plan follow:]

#### PREPARED STATEMENT BY HON. TINA W. JONAS

Mr. Chairman, members of the committee, I appreciate this opportunity to discuss our progress concerning financial management and the transformation of our business processes and systems in the Department of Defense (DOD).

Before doing that I want to thank this committee for your continued strong support for the men and women of our Armed Forces and their families.

Turning now to business transformation, I am glad to be back in the DOD and to help lead this critically important work. In the few months I have had to review our transformation efforts, I have found that the Department is making progress. However, we have difficult challenges to overcome. We recognize that we must change how we do business in the DOD in order to meet the changing requirements of our Armed Forces. We are committed to providing the best possible support to our men and women in uniform through improved business processes and financial management.

#### IMPROVING DOD FINANCIAL MANAGEMENT

The Department's efforts to improve financial management have focused on two integrated programs—the Financial Improvement Initiative (FII) and the Business Management Modernization Program (BMMP).

The FII focuses on efforts to identify and correct reporting deficiencies as well as efforts to clean up data to lay the groundwork for systems improvements. The

BMMP focuses on business process reengineering and business systems modernization.

These initiatives are closely linked. Both initiatives are central to our ability to achieve an unqualified audit opinion, and both have yielded measurable results.

#### ACCOMPLISHMENTS

In 2001, only three organizations in the Department received an unqualified or "clean" audit opinion. Since then, we have steadily added to those numbers, and in 2004 we expect to receive at least six clean opinions—possibly seven—and one qualified opinion. These six clean opinions are for: the Defense Finance and Accounting Service (DFAS), Defense Contract Audit Agency (DCAA), Military Retirement Trust Fund, Defense Commissary Agency, Defense Threat Reduction Agency, and Office of Inspector General. The Medicare Eligible Retiree Healthcare Fund received a qualified opinion.

In addition, we are making progress on our material weaknesses. The Department has eliminated two of its material weaknesses (military retirement health care data and problem disbursements) and is focused on eliminating the remaining eleven. Of the weaknesses remaining, our analysis shows that some weaknesses are primarily process problems, not systems problems. In particular, we are optimistic about eliminating the Department's environmental liabilities weakness because we have made progress in identifying the sites to be restored and in the reliability of our estimating techniques.

We agree with the concerns of many that we should not attempt to obtain a clean opinion through "heroic" efforts that do not correct underlying business systems problems and thus would not result in a sustainable clean opinion. However, we also believe that there are improvements that can and should be made in order to strengthen internal controls, correct weaknesses, and lay the groundwork for financial systems improvements.

The FII has given us insight into the actions required to resolve our reporting deficiencies—without wasting audit resources—and we are integrating the financial improvement plans with the Business Enterprise Architecture (BEA). The improvement plans identify deficient processes, and we use these plans to ensure that the BEA addresses those deficiencies. The BEA in turn provides the business rules for the corrective actions outlined in the plans. We are developing a web-based tool to assist us in tracking corrective actions across the Department, and we will continue to make process improvements because often process improvements—not new systems—are what is needed to correct a problem.

#### DOD BUSINESS TRANSFORMATION

A key driver of DOD business transformation has been the BMMP. The goal of BMMP is to improve the efficiency and effectiveness of DOD business operations and provide the Department's leaders with accurate and timely information.

We believe that achieving this goal will ultimately save millions of dollars. But more importantly, it will allow us to channel limited resources to the warfighting mission of the Department. We are pursuing the improvement and alignment of three key functional business processes in the Department:

- Financial management
- Acquisition, materiel, and asset management
- Human resource management

We are improving these three business processes by implementing greater standardization and streamlining our work. We are aligning these three processes by ensuring that the systems that support them, and the critical data that flows between them, adhere to Department-wide business rules and standards. These business rules and standards are embedded in the BEA.

This is a large and complex undertaking. Nonetheless, we are energized by the potential benefits that the program will deliver. BMMP has laid a strong foundation for transformation across the Department and has given us the knowledge to move ahead smartly.

#### ACCOMPLISHMENTS

Since initiating its business transformation, the Department has had a number of accomplishments.

We developed the Business Enterprise Architecture to serve as a roadmap for transformation. The architecture depicts over 90 core business processes, and includes approximately 25,000 rules and regulations that are necessary to get us to our future vision and desired end-state. These processes, rules, and regulations are

required to control investments and to configure new systems to ensure interoperability and data integrity.

We established a consolidated information technology repository to focus on the major information technology (IT) business systems. This will help us to control investments and prevent unnecessary IT spending. The repository contains 362 systems that represent 54 percent (\$2.8 billion) of the total budget for DOD business systems. The repository is a subset of a larger inventory of all DOD business systems.

We initiated a specific process to control spending on the development and modernization of business systems and to ensure that funds are spent on systems that comply with the enterprise architecture. In fiscal year 2004, we reviewed 56 systems that represented approximately 34 percent (\$0.6 billion) of the budget for that year. This was a good start, and in fiscal year 2005 we will go further by reviewing 132 systems representing 78 percent (\$1.4 billion) of this year's development and modernization budget. To date we have withheld \$220 million in fiscal year 2005 funding pending determination of compliance. For systems that we find to be noncompliant, we will not invest in them.

We initiated a formal process for controlling spending on older, "legacy" systems. This process, called "portfolio management," helps us eliminate redundant systems that do not fit with our future architecture. We estimate portfolio management will facilitate the phasing out of hundreds of systems within the next several years. For example:

- Navy Converged Enterprise Resource Planning (ERP) System. This program—the Navy's enterprise solution for automated information in its intermediate-level maintenance and wholesale and plant supply activities—will facilitate the phase-out of 58 systems.
- The Defense Enterprise Accounting and Management System (DEAMS). This new Air Force enterprise accounting system is being implemented at the U.S. Transportation Command (TRANSCOM) and will facilitate the phase-out of 12 systems.
- General Fund Enterprise Business System (GFEBS). This new Army system for managing general funds will facilitate the phase-out of 28 systems.
- Defense Integrated Military Human Resource System (DIMHRS). Our new human resources enterprise solution for military personnel management will facilitate the phase-out of about 100 systems.

We developed and published a Standard Financial Information Structure to standardize budget and accounting codes so that all DOD entities use the same descriptors to classify financial activity. Standardization is extremely important and will allow us to consistently trace financial activity. Today we rely on coding that results in data errors and inhibits our ability to maintain a clean audit trail. Standardization will correct this problem.

We adopted the U.S. Standard General Ledger as our approved DOD ledger system. Today, all new accounting and business systems in DOD must comply with this standard. Similar to the Standard Financial Information Structure, adoption of this common general ledger will permit standard data entry and improve our ability to achieve a clean audit opinion.

#### BUSINESS SYSTEMS TRANSITION PLAN

Building on these accomplishments, the Department is developing a transition plan that includes key milestones to mark the path from where we are to where we are going. This plan is critical to our ability to understand and measure the steps and milestones required for transformation. There is much work to be done as we continue to develop the plan and make it more comprehensive and specific. The real work of transition planning is taking place in the domains and military Services. BMMP is leading the effort and is focusing on a common set of transformation objectives. When complete, the plan will include an agreed-upon list of the most critical new systems, the existing systems they will replace, and a reasonable timeline for such replacements.

There are several steps involved in the development of this plan, and we have a lot of work to do. But let me tell you where we are today.

First, we are completing work on a definitive list of existing "legacy systems" and projected new systems. Second, we are working with the Services and the domains to develop a detailed strategy for modifying or replacing existing systems, as necessary, to ensure compliance with the architecture. Third, we are establishing a master schedule and milestones for each new major system development and modification.

We expect to fulfill the authorization act requirements by September 2005 and expect our plan to contain cost estimates and system migration data for the systems in our inventory.

#### NEW BMMP GOVERNANCE

We understand that in order to succeed, the Department's leadership must continue to be fully engaged and supportive of this effort. Therefore, we believe that our goals are consistent with the provisions of the National Defense Authorization Act for Fiscal Year 2005. The Defense Business Systems Management Committee (DBSMC), to be chaired by the Deputy Secretary of Defense, will help strengthen the program. The provisions that expand and strengthen the responsibilities of the Domain Owners by requiring them to certify that their system changes are compliant with the enterprise architecture are also consistent with sound management and are helpful to senior leadership. To ensure greater control and compliance, under the legislation, the Domains' investment review boards will review all business systems in their functional area.

The National Defense Authorization Act also adds incentives and controls to enforce compliance with the BEA. Effective October 1, 2005, the Department may not obligate funds for any business system modernization with costs exceeding \$1 million unless the modernization complies with the Department's enterprise architecture, and the Defense Business Systems Management Committee approves it.

#### CLOSING

In closing, I would like to emphasize our commitment to improve the way we do business in the DOD. Our success is essential to provide strong support to our military forces and to make the best use of taxpayer funds. As our military forces transform their capabilities to adapt to a changing security environment that requires speed, agility, and flexibility, so must we change our business processes to ensure that we can provide support to them in the most efficient and effective way.

The Department is grateful for this committee's support. Mr. Chairman, I thank you for the opportunity to discuss our progress in financial management. I would be happy to answer your questions at this time.

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#### PREPARED STATEMENT BY HON. VALERIE LYNN BALDWIN

Chairman Ensign, Senator Akaka, distinguished members of the subcommittee—

Thank you very much for the opportunity to appear before you this afternoon to discuss financial management reform at the Defense Department that is specific to the Army. Before addressing this issue, on behalf of the Army and the troops fighting the global war on terrorism, I would like to thank you for your tremendous and unwavering support. By it, you do credit to Congress and to our fellow Americans. Thank you.

The Army is undergoing a process to prepare for the future, which we have dubbed transformation. When most people hear this term, they think of the new modular brigades the Army is building, Stryker combat vehicles or the Future Combat System. But transformation is not limited to how the Army fights—it is applicable to how we manage our business, too.

In conjunction with DOD's Business Management Modernization Program (BMMP), the Army is in the process of reforming its business and financial management functions. We are eliminating redundant and noncompatible systems. We are streamlining, re-engineering and standardizing business rules and procedures. We are evaluating how to manage our resources more efficiently and effectively. We are exploring ways to provide our senior leaders timely, accurate information that empowers them to make sound warfighting decisions.

Clearly, financial management reform can be successful only if reform extends to other interrelated and interdependent business areas, including: (1) logistics, at both the wholesale and retail levels; (2) procurement; (3) healthcare; (4) personnel management and pay; and (5) asset management.

The value of our business portfolios is huge and continues to grow in order to sustain an Army that is transforming and fighting a war. In fiscal year 2001, Army resource managers accounted for \$113 billion in total direct appropriations and reimbursable orders. That figure grew to \$123 billion in fiscal year 2002, \$176 billion in fiscal year 2003 and \$224 billion in fiscal year 2004. This is a nearly 100-percent increase in the amount of appropriations and receivables managed in just 3 years.

Despite this staggering growth, the Army improved its financial management performance, according to several key measures:

Measure	Fiscal year 2002	Fiscal year 2004
Unmatched disbursements over 120 days .....	\$116.2 million	\$1.3 million
Negative unliquidated obligations over 120 days .....	\$7.3 million	\$0.0
Unsupported accounting adjustments .....	\$346.2 billion	\$196.6 billion
Contract interest and penalty payments per \$million paid .....	\$147.00	\$91.00
Canceled account liabilities funded with current funds .....	\$34.2 million	\$5.8 million
Total Antideficiency Act Cases Closed .....	7	14
Total Travel Card Delinquencies .....	\$7.6 million	\$2.9 million

Still, I agree that the Army has “pervasive weaknesses in internal control, processes, and fundamentally flawed business systems,” as stated by the General Accountability Office (GAO) (GAO-04-910R).

The progress we have made is attributable to the manner in which we are executing our Chief Financial Officer (CFO) Strategic Plan. Likewise, we are developing a disciplined, portfolio-based governance process that will enable us to manage better information technology investments. Additionally, we are proceeding aggressively to purchase a commercial off-the-shelf (COTS) business system that will correct flaws in our business systems and associated processes. I believe that, if we continue to execute our plan in a disciplined and decisive manner, the Army will be well-positioned to achieve a clean audit opinion.

#### THE CHIEF FINANCIAL OFFICER STRATEGIC PLAN

Everyone agrees that current DOD financial management systems do not provide decisionmakers timely, reliable, and accurate data. The systems have well-documented, endemic control weaknesses that prevent us from issuing reliable financial statements and obtaining favorable audit opinions. The lack of integration with other business systems and processes, and the reliance on business practices and technology developed in the 1970s, impede production of correct, timely and reliable financial information. This is why the Department of Defense and the Army must implement integrated business systems, robust management controls and standardized business processes that focus on enterprise business management.

The Army's Chief Financial Officer Strategic Plan, which synchronizes our financial improvement efforts through a single comprehensive management strategy, is the key to rectifying the situation I just described. The plan's focus is sustainable improvement, not end-of-year 'heroic' and costly efforts designed to scrub the books for audit.

Initiated in fiscal year 1998, the CFO Strategic Plan is updated on a quarterly basis. It was revised most recently in September 2004 to incorporate many of the recommendations included in the Government Accountability Office report, “Financial Management: Further Actions Are Needed to Establish Framework to Guide Audit Opinion and Business Management Improvement Efforts at DOD” (GAO-04-910R).

The plan identifies the steps each organizational element in the Army must take to correct all known financial and non-financial processes and systems that prevent us from achieving clean financial statements. It assigns 1,183 actionable and specific tasks to 22 functional Army business entities and DOD activities, such as the Defense Finance and Accounting Service (DFAS). Each task has a target start and completion date, and progress is tracked quarterly. Completed tasks remain marked as “open” until independently validated by the Army Audit Agency. As recommended by GAO, I have directed the staff to revise the plan to: (1) assign specific persons to particular tasks; and, (2) estimate the cost of meeting each requirement. These changes will be complete by the end of March 2005.

As of September 30, 2004, the Army completed 249 of these 1,183 tasks, all of which were validated by the Army Audit Agency. Among other accomplishments, the Army improved accuracy of the fund balance with Treasury, and investment valuations are now reported on our financial statements. We implemented the web-based Property Book Unit Supply Enhanced system. Additionally, the Army is: more accurately reporting criminal and civil fraud recoveries; correcting real property documentation deficiencies; and preparing for internal audit of other liability valuations and stewardship land.

One of our most significant achievements to date is the Army-wide implementation of the Defense Property Accountability System (DPAS). DPAS is an FFMIA-compliant, property accountability system that serves as a single source of information for all general (non-tactical) equipment. More than 8.6 million general-equip-

ment records, with a value of nearly \$20.9 billion, are housed in DPAS. We capitalized, and reported on the Army's balance sheet, more than 28,000 of these records, with a combined value of nearly \$12 billion. The remaining records and associated dollar values are below the capitalization threshold and do not require balance-sheet reporting.

It also is important to note that the switch to DPAS, which was completed in 2002, allowed the Army to eliminate several property-accountability systems that were not FFMIA-compliant.

#### FINANCIAL ENTERPRISE ARCHITECTURE

As part of the Business Management Modernization Program (BMMP) effort, the Department of Defense is constructing a Business Enterprise Architecture (BEA). To ensure that our business processes and systems comply with the DOD BEA, the Army's financial management community has developed the Single Army Financial Enterprise (SAFE) architecture.

SAFE, which is an integral component of the CFO Strategic Plan, enables the Army to identify the business process relationships among its various business domains. The SAFE architecture provides several advantages including: (1) operational views, focusing on business rules, processes and operations; (2) systems views, covering the 'as-is' systems environment and data flows from these systems; and (3) technical views centered on technology standards. The SAFE architecture documents standard, cross-domain, financial processes and business rules that are necessary for future, business-process reengineering and COTS-software implementation efforts.

As part of SAFE development, the Army has identified more than 100 business systems that generate financial data, and the functions performed by each system. My shop, Financial Management and Comptroller (FM&C), intends to eliminate 28 of these systems by integrating their functions into the core processes of new, COTS financial software. We have marked an additional 31 systems for possible retirement and integration into the COTS software. Other business domains (such acquisition, logistics, etc.) intend to retain 34, and eliminate 18, of their systems.

#### GENERAL FUND ENTERPRISE BUSINESS SYSTEM

As I've already mentioned, the Army's CFO Strategic Plan calls for a transition to JFMIP-certified, COTS financial software, which we call the General Fund Enterprise Business System (GFEBS.) The Program Executive Officer-Enterprise Information Systems (PEO-EIS) is in charge of GFEBS acquisition.

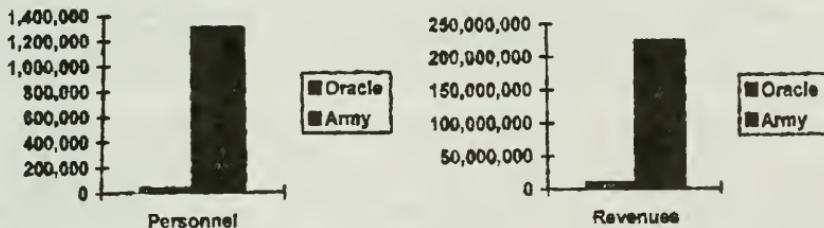
GFEBS implementation will follow the standards set in the Chief Financial Officers (CFO) Act of 1990 and in the Federal Financial Management Improvement Act (FFMIA) of 1996. The Army will ensure that GFEBS conforms to the Federal, financial-management systems requirements identified by the JFMIP. Additionally, the system will comply with all applicable accounting standards, including requirements of the U.S. Government Standard General Ledger (USGSQL) at the transaction level as set by Office of Management and Budget (OMB) Circular A-127. GFEBS will comply with the Department's Business Enterprise Architecture, as well, and align with the processes and systems of all business domains.

The Army plans to implement GFEBS in several phases between fiscal years 2005 and 2009. Each phase of the GFEBS acquisition is considered a separate option, which will enable the Army to discontinue the contract at the end of any particular phase. The first phase will consist of a technical demonstration of GFEBS' end-to-end, core, financial capability. During this portion of the program, the Army will confirm that GFEBS conforms to the BEA and to FFMIA requirements. Contractually established key performance parameters will be used as benchmarks and an independent evaluation of each performance parameter will ensure compliance.

Although I am optimistic that GFEBS should enable the Army to cure several accounting deficiencies that prevent us from attaining a clean financial audit, GFEBS is only as good as the information it receives from nonfinancial business systems and processes. Incoming data must be accurate, reliable and in compliance with the DOD enterprise architecture.

For example, the primary sources of information for valuing inventory are the Army's inventory management systems. These systems must provide GFEBS an accurate accounting and valuation of that inventory if the Army is to produce reliable and accurate financial statements. Fortunately, the financial management community is working closely and cooperatively with the Army's logistics and other business domains to ensure that their systems comply with DOD's enterprise architecture requirements and can supply the quality data GFEBS needs.

We project it will take 5 years to implement GFEBS and to integrate the Army's business systems. This goal is extremely ambitious. To put it in context, compare the Army to Oracle Corporation. Oracle has nearly 40,000 employees in 140 countries, a narrow business focus and revenues of just \$10.1 billion in 2004. They began their integration effort in 1999. Today, 5 years later, Oracle is in the final stages of its transition.



In contrast, the Army employs nearly 1.3 million active, Guard, Reserve, and civilian personnel, who are stationed in 120 countries. Our fiscal year 2004 revenue stream was nearly \$224 billion. Unlike Oracle, the Army has multiple businesses, which include buying and selling parts and developing and procuring weapon systems. On our fiscal year 2004 balance sheet, we reported \$246.7 billion total assets and \$64.3 billion in total liabilities. To say that implementing GFEBS by 2009 is aggressive is an understatement of the highest magnitude. Regardless, the Army is committed to doing everything possible to achieve this goal.

In addition to creating reliable financial statements, I firmly believe that GFEBS, effectively integrated with nonfinancial business systems, will provide the Army's senior leaders and decisionmakers quality information upon which they can base business and strategic decisions.

For example, it is vital to know how many soldiers are in a medical hold status for healthcare and manning purposes. Currently, the Army must engage in extensive data calls from multiple business systems to track this information. When GFEBS is integrated with our human-resource management systems, the Army will be able to track easily the number of soldiers in a medical hold status and the associated cost. We will be able to obtain the needed information from a single source, in a timely manner, without extensive data calls from multiple business systems. My challenge is to convey these benefits to the Army's leaders, and I know the committee will support me in this effort.

#### NEW GOVERNANCE PROCEDURES

Also under the umbrella of business management transformation, the Army's Chief Information Officer (CIO) is instituting a robust and disciplined governance process to help us better manage our portfolio of business information systems and investments. The CIO is positioned to establish formally a domain governance structure and a portfolio management process by January 1. The governance structure being developed mimics the domain delineations established by the Office of the Secretary of Defense and, for the first time, assigns responsibility for managing the full portfolio to the owner of that domain.

In order to institutionalize portfolio management in the financial management domain, the Army is developing a business-system baseline. This baseline will tell us what systems are in use throughout the service and it will identify the attributes of each from the functional, technical, and cost perspectives. The validation and categorization of our financial management systems is ongoing, and we expect to complete this assessment by March 1, 2005.

Once the baseline is set, we plan to review all systems to determine whether they have a future in the Army. If a system is underperforming, the Army will stop investing in it and, eventually, discontinue its use altogether. Any system that fulfills a requirement, which the General Fund Enterprise Business System can cover, will be retired. Only those that GFEBS cannot replace will be retained and brought into compliance with the BEA.

The Army already has made substantial progress in this IT house-cleaning effort. In conjunction with the portfolio review process, we identified and eliminated 59 financial management systems from our inventory in fiscal year 2004. We also terminated the Army National Guard's unique accounting system, which operated in 54 separate databases. Now, the standard finance system (STANFINS), operating in

five databases at a single location, supports the Guard's accounting requirements. The Army intends to consolidate another 69 separate accounting system databases and to terminate the installation supply buffer, which currently can be found in 36 separate applications.

#### CONCLUSION

I agree with the President, the Secretary of Defense, the acting Secretary of the Army, and Congress that financial-management transformation at DOD is not an option—it is an imperative. Implementing sustainable, financial-management improvements that support the Army's transition to a modular expeditionary force is in our best interest, the Defense Department's best interest and the taxpayers' best interests.

One very important issue I have not discussed is the human-capital aspect of the Army's business transformation. The average civilian employee in our comptroller workforce is 49 years old and has 21 years of experience. Although more than three-quarters of our civilians have some college education, I am concerned that both the average age and the number of years logged in our old financial management framework may indicate that a significant portion of our personnel is not optimally suited to the integrated, modernized, business environment of the future. To address this concern, I have directed our career proponent to develop an education program that will teach our workforce about commercial information technology products, and how they support business operations. This program must transcend the training typically provided to users as part of systems implementation. It must truly educate our workforce in modern information-technology techniques and processes, and position them to adapt to business modernization.

Without a doubt, the success of our transformation efforts, particularly GFEBS, is contingent upon the involvement of senior DOD and Army leaders. It is our collective responsibility to establish DOD-wide goals and objectives, and to monitor our progress in reaching them. We need to focus on effectively managing the DOD and Army information technology portfolios and on developing the Business Enterprise Architecture.

I have, however, a cautionary note. We must guard against planning for the sake of planning. Over-planning leads to inertia that ultimately results in sustaining the status quo. The Department of Defense needs to develop a transition blueprint that guides the transformation effort, provides a mechanism to track progress and enables a reasonable level of flexibility to adjust to changing conditions.

The Army is committed to managing its portion of this long-term transition effort in a disciplined manner to ensure success. I look forward to being a part of the process and I thank the committee for its support of and interest in Army financial management.

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#### PREPARED STATEMENT BY HON. RICHARD GRECO, JR.

#### INTRODUCTION

Mr. Chairman and members of the committee, thank you for the opportunity to appear at these proceedings today and to submit a statement for the record. Transforming the Department of the Navy's (DON) business processes while concurrently supporting the global war on terrorism, is a formidable but absolutely essential task. It will require time, resources, and leadership focus from every business area of our Department. It also will drive many changes, in processes as well as in systems, and the effort will not succeed unless our sailors, marines, civilian employees, and their commanders and executives understand and embrace this transition.

Although I have been in my position for less than 1 month, I strongly believe that the concerted, coordinated efforts in DON and throughout the Department of Defense will improve business operations that will result in improved financial management information. This higher-quality information, in turn, will aid managers at all levels in the Navy and Marine Corps to make better informed and more accurate decisions about using their resources to achieve the Department's mission.

#### DON TRANSFORMATION GOALS

The Secretary of Defense has challenged each military service to pursue an aggressive transformation of their warfighting capabilities in order to meet emerging 21st century threats. To complement this transformation in critical mission support areas, we need an equally aggressive strategy for business transformation. I am pleased to report that the my Department of the Navy has proactively moved to modernize our business systems and improve processes that will ultimately improve

the quality of our financial information. At the same time, our business transformation efforts must be synchronized with broader, ongoing DOD programs to achieve the necessary total enterprise goal. The same interoperability which is critical to joint operations on the battlefield is also necessary for efficient processes that support the warfighter.

To put this discussion into context, the DON's business transformation strategy includes four primary elements:

- Business Management Modernization Program. While not a DON initiative, OSD's Business Management Modernization Program (BMMP) has developed a blueprint for modernization called the Business Enterprise Architecture (BEA). Still in an evolutionary form, BEA serves as the framework for our future systems' evolution. It contains basic business rules and dictates process flows so that our supporting systems can exchange information effectively and seamlessly.
- Enterprise Resource Planning. In the late 1990s, we embarked on a series of Enterprise Resource Planning (ERP) pilot programs in selected business areas, providing an immediate contribution to those operations as well as critical implementation experience. We are currently working to merge the configuration pilot implementations of this commercial off-the-shelf product to deploy its capabilities more broadly. This will serve as the cornerstone of our business modernization effort. It will drive process re-engineering using commercial best practices wherever possible across diverse business areas (such as weapons systems program management, R&D, and depot maintenance). This effort is in compliance with the business rules and process flows set out in the broader BEA.
- Functional Area Managers (FAM). To move to DON's standard IT network infrastructure, the Navy-Marine Corps Intranet (NMCI), we needed to establish a process to inventory and catalogue our robust portfolio of applications. Since Functional Area Managers (FAMs) provided us with early portfolio management, they are now natural interfaces with corresponding BMMP domains. This portfolio baseline and the supporting FAM process will serve as the transition tool to help us move from our current legacy systems and into the future target environment.
- DON Financial Improvement Plan (FIP). The FIP is our program to achieve a clean audit opinion on our financial statements. Recognizing that this plan continues to evolve, we must consider and integrate key milestones of each of the major initiatives above, specifically evaluating different alternatives for accomplishing corrective action (e.g., manual, or legacy enhancements while awaiting replacement systems).

The elements of our transformation strategy are large and complex initiatives that continue to develop over time. In addition to being intricate, each of these elements has distinctive challenges involving communication and change management. Recognizing that each has its own timeline and may provide constraints to the others, we believe that the real value comes in integrating these efforts. We have made significant progress in each area. Over time, the integrated value of the total will be greater than the sum of its parts. This integration is ongoing, and there is much to do; however, I would like to look briefly at what we have accomplished in each of these areas.

#### BUSINESS MANAGEMENT MODERNIZATION PROGRAM (BMMP)

We strongly support OSD's efforts to map out standard processes and business rules to be used throughout the Defense Department. The evolving Business Enterprise Architecture (BEA) will provide a common framework and business rules leading to fewer, but more efficient, complementary systems and integrated applications. While I will defer to the DOD Comptroller for the details of this extensive effort, I do want to make two key points.

First, Navy-Marine Corps representatives have been fully engaged in workshops that have helped develop the architecture. We continue to gain an improved understanding of the emerging structure and what it will mean to our operations. Second, among BMMP leaders, there has been increased awareness and support of our Navy-Marine Corps business initiatives, most notably the ERP pilots and the FAMs; we have shared our lessons learned with the BMMP domains, as well as with the other Services, as we make progress, and our continuous dialogue better ensures that our efforts are compatible with the BEA.

## ENTERPRISE RESOURCE PLANNING (ERP)

Five years ago, we initiated four ERP pilot programs in different business areas of our systems commands. Each one of these test projects has matured and has provided value to the Department of the Navy and its mission. While the propensity may be to engage in a large, enterprise-wide effort, lessons from private industry showed that smaller, more focused efforts are much more likely to succeed; and we have been successful. We are now working to integrate the business rules and processes of the four pilots into a single ERP. This merged system will become the standard solution for diverse Navy business areas, including financial management, major weapons systems program management, inventory and supply-chain management, and depot and intermediate maintenance support.

This single ERP is our Navy ERP Program. The program has been certified by BMMP leadership to be architecturally compliant with the BEA and has successfully passed Milestone A/B. We expect that the final Navy ERP product will be available for use in each of our systems command headquarters and warfare/system centers, regional maintenance centers, and aviation maintenance facilities in the near future. The Navy ERP, as well as the predecessor pilots, employs commercial off-the-shelf software that has been approved by the Joint Financial Management Improvement Plan (JFMIP). The BEA has been designed to support commercial software that embodies the "best practices" of the private sector while reducing government software maintenance costs.

We have realized a number of positive results from our ERP pilot experience:

- The Converged-Enterprise Resource Planning is a system that will significantly improve logistics movement ashore and afloat. The system will provide an end-to-end supply chain integration for sustainability producing benefits in cycle time reduction, and asset visibility. In the naval aviation community, engineering change process approval time decreased from 87 to 25 days, and over 1 million inventory transactions were processed with less than 0.5 percent error rate.
- The Naval Sea Systems Command (NAVSEA), Task Force Lean Implementation Plan focuses on efforts to align the entire NAVSEA command to a culture that recognizes the practices of six sigma, theory of constraints, and a prioritized application of these methodologies to achieve maximum business results. Examples include a 92-percent flow time reduction in ordering material for Attack Submarine (Nuclear Propulsion) (SSN) 688 *Los Angeles* class submarine maintenance periods resulting in a 44 percent productivity improvement.
- The Marine Corps Logistics Modernization program takes industry, government, and military best practices to maximize combat effectiveness and lethality by substantially improving the logistics chain processes. The Global Combat Support System is the key technology enabler. Results from implementing changes at the Marine Corps Depot in Albany, NY, include reducing repair cycle time anywhere from 14 to 75 percent, and reducing the quantity of assets in maintenance by 50 percent.

## FUNCTIONAL AREA MANAGERS (FAMS)

Three years ago, DON started portfolio management of business systems in conjunction with the Navy-Marine Corps Intranet (NMCI) implementation. The year 2000 effort had forced us to face the problem of systems and applications proliferation, but NMCI implementation allowed us to take action. FAMs have led our Departmental portfolio management; FAMs are organized by business discipline and include, for example, Finance and Accounting, Acquisition, and Logistics. FAMs report to the DON Chief Information Officer and the Director of Navy Staff.

Using the the FAM process, we have accomplished the following:

- Aggressive portfolio management has significantly reduced the number of authorized systems and applications, by standardizing versions and by eliminating outdated and duplicative systems. Financial management systems have been reduced from over 2,000 in 2001 down to 338 in 2004.
- NMCI desktops can carry only FAM-approved systems and applications, providing a means of enforcing the Department's application reduction effort. This reduction is from approximately 67,000 legacy applications to a portfolio of approximately 7,000.
- Goals for further systems reductions have been established and will be executed, consistent with the domains' transition plans.

Because we needed to limit the number of systems and applications operating on desktops within NMCI, we began to catalog systems and applications, consolidating

systems versions and eliminating systems superseded in ERP pilots. More work needs to be done to eliminate systems performing duplicative functions, but we now have a credible start and an effective tool in our portfolio management.

Our FAMs have a natural alignment with the Office of the Secretary of Defense (OSD)-sponsored functional BMMP Domains, which are also actively managing DOD-wide portfolios. Under the leadership of the DON CIO, we are working collaboratively with the BMMP to use our baseline systems inventory to develop a meaningful, time-phased, and resourced transition plan for movement into new systems such as the Navy ERP. This is another area where our progress has been adopted and used by OSD on a broader scale. The systems inventory database, originally used by DON FAMs, is now being used at the OSD-level within the BMMP.

#### DON FINANCIAL IMPROVEMENT PLAN (FIP)

One of the key objectives of the President's Management Agenda is improved financial management. The DON FIP is the overarching element that will drive toward this objective for the Department of the Navy.

In addition to implementing a better integrated systems environment, we realize that the ultimate goal of our business transformation must be to establish a culture and sound business processes that produce high-quality financial information for decisionmaking. Only a clean opinion on our financial statements can confirm that we have met this standard. Much-improved financial information will provide a self-reinforcing mechanism on which our leadership will rely; leaders will in turn demand that this quality be maintained. With that as a premise, our plan provides the roadmap to measure outcomes and evaluate progress toward this goal.

Our Financial Improvement Plan by necessity must integrate the evolving elements of our business transformation strategy. In reviewing and validating our business processes to prepare for audit, we will be using the business rules and standards that have been developed by the BMMP to date. Corrective actions must be evaluated against the systems transition plan to ensure that any investment in a legacy system has a solid cost justification and can be sustained. As a recent GAO report<sup>1</sup> highlighted, we must work to integrate fully these external elements into our FIP; however, we have made significant progress.

DON's FIP evolved into a comprehensive, detailed plan after extensive consultation with major DON organizations. We identified key material weaknesses, in either processes or systems, that affected the audit quality of specific lines on our financial statements. We are mapping the required flow of this information and assessing whether present or planned business systems could give us this data efficiently.

As we identified actions needed to correct known deficiencies, the DOD Comptroller recently developed a much-needed, structured process for audit preparation. This procedure is a rigorous set of business rules requiring that we lay out our processes in a structured and well-documented way. This validation and assertion process is time-consuming and deliberate, but it is essential so that we do not waste auditors' time and resources. The process also encourages managers to take ownership of their own business processes and consider their internal controls environment as a key element supporting the preparation of financial statements.

#### SYNCHRONIZING THE BUSINESS MANAGEMENT MODERNIZATION PROGRAM AND DON'S FINANCIAL IMPROVEMENT PLAN

Achieving the goals set by the BMMP while simultaneously pursuing DON's FIP will be a complex undertaking. However, both projects seek to standardize business processes and data elements, and both seek to make the flow of this management information more accurate and efficient. Regardless of the cause, the more-efficient flow of standard data is the desired outcome. If each project moves DON toward this result, then there will be a synergy in doing both. The "business transformation" called for in the BMMP will not be a "Big Bang" event; rather, it will be evolutionary in development.

Depending on the timing of legacy systems' transition, investment in these systems may be justified if an improved and more auditable process is the result. Specifically, any action requiring an investment of resources must result in meaningful, sustainable results, not "heroic" actions that may temporarily correct a problem. Synchronizing FIP with key elements (a systems transition plan and business rules or standards that are part of the BEA) of the BMMP will allow both initiatives to progress.

<sup>1</sup> GAO-04-910R DOD Fiscal Year 2007 Audit Opinion

DON's FIP will document the specific tasks that will move us toward this end-state. Acting on this conviction, the Navy-Marine Corps team has fully funded its FIP in fiscal year 2005 and beyond through completion, including out-year maintenance funding. I would be happy to provide this committee detailed information about the evolution of our FIP, its organization, its planned administration, and the comprehensive results that we want to achieve.

#### CONCLUSION

In summary, the Department of the Navy is moving forward with an aggressive business transformation strategy and refining that strategy to adapt to our priorities and the larger transformation that is taking place across DOD. Our transformation focuses on changes for our people, processes, and systems. There are three key elements that are currently being executed within the broader context of the OSD Business Management Modernization Program: The Navy Enterprise Resource Planning, our Functional Area Managers process, and the Department of the Navy Financial Improvement Program.

Each element is large and complex; all elements continue to evolve, but each is also providing near-term benefits. They also must be synchronized because they are interrelated, and segments of one plan may depend on completion of tasks in another. For example, the systems transition plan in BMMP is critical to making meaningful long-term progress in the Financial Improvement Plan.

We are working diligently to accomplish this synchronization. I am personally committed to implementing improvements that will produce meaningful and sustainable results, and more importantly, ensure that timely and accurate financial information is available to our Department's leadership.

I thank the committee for their support in this endeavor.

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#### PREPARED STATEMENT BY HON. MICHAEL MONTELONGO

##### INTRODUCTION

Chairman Ensign, Senator Akaka, and distinguished members of the committee, thank you for this opportunity to comment on our progress with business management transformation in the Department of Defense and, more specifically, to share with you the details of our ambitious, bold, yet very necessary journey to transform a component of that larger change—Air Force Financial Management (FM). This is an imperative directed by Congress and inspired by the President (through his President's Management Agenda), the Secretary of Defense (expressed most urgently in his "Bureaucracy to Battlefield" remarks on 9-10-01) and the Secretary of the Air Force (when he declared "our financial professionals will enable the Air Force to achieve its transformational goals. . .").

I echo the views expressed by Secretary Jonas (and my Service counterparts) in her written statement to you on the Department's (and by extension the Services') progress, successes, and challenges in this undertaking. The Air Force Financial Management community is in lockstep with OSD Comptroller and my Service colleagues in working to achieve an enterprise-wide business and financial management capability that is modern, comprehensive, and responsive to the warfighter—it's crucial that we modernize our total "back office" to achieve enterprise transformation. Indeed, our very presence here today is a testimony of our solidarity and firm resolve to see this through. In short, we care. Your presence and this hearing are powerful signs that this matters, and I thank you for that. I'm pleased to say, we can all be encouraged by the fact that the basic building blocks for DOD-wide process and systems integration are beginning to produce tangible results enabling achievement of Business Management Modernization Program (BMMP) objectives.

But, there's more to business management reform than just the usual focus on financial management. For instance, while non-financial processes and systems account for the bulk of transactions across the Air Force, most of them drive a financial consequence. Improving financial management then, fundamentally requires transforming management processes and systems in all major functional areas, not just financial. There's more to financial management reform than just the conventional emphasis on information technology (IT). For example, in financial management, we must jettison our transaction orientation and embrace a decision support mindset so that we can help warfighters make better, more informed, and timely decisions. As financial professionals, then, we need to become less like accountants of an industrial age and more like consultants (or even e-accountants) for an information/knowledge age.

In other words, Business and Financial Management Transformation—like any large organization-change exercise—is more about changing people, behavior, and culture than it is about installing new IT platforms. It also is as much about changing the way we do business (our processes) as it is about eliminating redundancy and noncompatible systems. On top of that, we have to change while we operate—build the airplane while we’re flying it, transform while we fight wars—because we don’t have the luxury of timeouts.

That’s why I’ll comment on the comprehensive nature of transformation in financial management and later cover some of the broader features that are DOD-wide and Air Force-specific in scope. Along the way, I’ll touch on the progress we’ve made in spite of our incompatible legacy systems, the work we’re doing to “fix” them, and the continuing refinement we’re making to our transition plan.

What will success look like? In its purest form we will be able to do what we cannot do today, namely, produce and track accurate, reliable, relevant, and timely management and financial information that we can use to help decisionmakers make more prudent and informed decisions. But I know what success will look like along the way there. It won’t exclusively be measured in terms of the number of clean opinions we get or the number of legacy systems we shut down, although these metrics are useful. Instead, you and I will be able to “smell and taste” success by how much of this continuous improvement process is imbedded and institutionalized in the fabric and DNA of this Department.

Although much work lies ahead, I smell and taste it [success] already! We’ve sized up the challenge and know what we’re up against; we have a clear vision of where we want to be and what has to be done; and we have a plan (already in execution) to get there. At my confirmation hearing, I committed myself to addressing our business and financial management problems. I suggested then that we tackle this “from an enterprise-wide perspective, beginning with developing a systematic architecture for the Department.”<sup>1</sup> We’ve done just that, Mr. Chairman, and I’m pleased to report we have transformed many of the Air Force’s business and support functions. Some of what we laid out in our vision is now taking shape and we can all share in that and leverage it for greater success.

Bottom Line: I believe the Department of Defense and the Air Force are well positioned to achieve business and operational integration across the Department over time. But, as the Comptroller General has stated, “it’s going to take time [as we] go from patience to persistence to pain before, ultimately, we prevail.”<sup>2</sup> Mr. Chairman, we will prevail.

#### AIR FORCE FINANCIAL MANAGEMENT TRANSFORMATION

##### *Our Shared Vision*

While the United States Air Force is the most advanced, capable, and powerful air force in world history, our vision is to be even better. . . . “Our Air Force is in the midst of a profound, exciting, and critical transformation. Warfighters, acquirers, maintainers, trainers and testers are coming together in new and unprecedented ways to ensure that when our people go in harm’s way—5, 10, 15, 20+ years from now—they will have the training, equipment, and support they need to assure decisive victory.”<sup>3</sup>

This is how our “Vision for Financial Management Leadership and Strength” begins and how we began our transformational journey by expressing our great ambition in the financial function to be “strategic partners recognized as the ultimate source for financial and management information . . . providing high-quality, customer-focused decision support and financial services.” That’s what we, as financial professionals, must be and do to deliver financial capabilities that are every bit as sophisticated and “leading-edge” as the warfighting concepts and systems we support.

When we get there, what will it look like? Well, just “imagine an Air Force wing operating at peak effectiveness and efficiency . . . one where every dollar strikes the correct balance between supporting the mission, maintaining the infrastructure and taking care of our people. Imagine a wing where the key leadership knows the true costs of its major processes and can make the proper trade-offs when confronted with unforeseen requirements. Imagine a wing where Air Force people can take care of all their pay requirements from their phone or computer without a trip

<sup>1</sup> Quoted from Michael Montelongo’s 27 June 2001 testimony before the Senate Armed Services Committee.

<sup>2</sup> Quoted from 24 March 2004 Hearing before the Senate Armed Services Committee, Subcommittee on Readiness and Management Support.

<sup>3</sup> Quoted from the Air Force Financial Management Vision Statement.

to Finance, where status of vendor payments is transparent, and where connections with the Defense Finance and Accounting Service (DFAS) are seamless . . . Imagine an Air Force where all wings achieve this level of performance and where our consolidated financial statements are both auditable and meaningful.”<sup>4</sup>

This is the world that our vision seeks to place us in—where we have the tools and skills that we need to complete our work with optimal efficiency. This is an FM where broad professional and personal growth and development are integral to our jobs. This is an FM whose processes are streamlined, free of rework, rekeying, and manual intensity. This is an FM free of data calls because financial and feeder systems are fully integrated, compatible, and interconnected in an end-to-end Enterprise Architecture (EA).

This is an FM where professionals, enabled by enhanced skills, efficient processes, and flow-through systems across the Air Force now have time to perform the highly valuable analysis that our commanders want and need to support the warfighter. To get there, we developed a comprehensive Strategic Plan that links our vision with concrete actions and measurable results. I’ve included a copy of this plan for the record.

#### *Our Strategic Plan—“Financing the Fight” and How We Will Do It*

Using modern tools like the balanced scorecard and insights from experts like Professors Bob Kaplan and John Kotter, both from Harvard Business School, we outlined a specific set of activities, initiatives, and projects to improve the people, processes and systems dimensions of our business. In doing so, we decided to specifically focus our work on three strategic themes, namely, warfighter support, strategic resourcing and cost management, and information integration and reliability.

In warfighter support, we are dramatically improving our personal finance service delivery by increasing our self-service capability. For example, partnering with DFAS, we are using web-based technology on a wider basis, similar to what most citizens would find on commercial banking and financial services websites (we call it myPay) to handle routine military and civilian pay inquiries. Think about it—airmen, part of an Expeditionary Air Force, deployed to Camp Doha, Kuwait now with 24/7 access to conduct routine pay transactions, costing the Service only pennies per transaction! The functionality and user-friendliness of myPay is so good, I’m pleased to say that last month we fully implemented electronic pay statements for our Airmen through myPay instead of by mail (we expect to save over \$1 million annually with this action). Once we complete the requisite union negotiations, we will require our civilian workforce to do the same. In the near future, we will do even more to deliver efficient services to the warfighter by centralizing and automating our back-office operations that today are fragmented and very labor intensive. Early efforts here have already manifested themselves as we continue to make great strides toward reducing late payment penalties and realizing vendor discounts. For instance, interest penalties are down from a high of \$343 per million disbursed in 2001 to \$81 per million disbursed in 2004—reflecting a 77-percent savings for the Air Force. We have also lowered our Government Travel Card (GTC) delinquency rates from a high of 9 percent in 2001 to a low of 3 percent in 2004. The Air Force has also aggressively tackled the processing of Anti-Deficiency Act (ADA) cases. Through improvements in ADA process training, and stressing the importance of timely investigations, we have been able to reduce late cases from a high of 12 in 2002 to just one this year. The Air Force also met the Department’s goal of closing all cases over 12 months old.

In strategic resourcing and cost management we will employ concepts and tools like performance-based budgets to maximize resource effectiveness and cost efficiencies. Using pilots underway, the work in this area is designed to move us from a regulatory-oriented regime to a more performance management-oriented framework. This will give our senior leaders, including yourselves, a much clearer picture of the critical linkages among our strategic goals, investments, and the value we derive from those investments.

Our information reliability and integration work is designed to streamline our processes and integrate our technology so that we can produce relevant, reliable, accurate, timely and actionable financial and management information. This is the area that is typically addressed by the Department of Defense’s BMMP, to which I’ll speak more about later. For now, I’ll say that our focus is on end-to-end information flows, accessible and transparent to users anytime, anywhere. The final proof that shows we’ve arrived will be a clean opinion on our financial statements. We’re not there yet, but we have a solid plan to get there, and we’ve “moved the ball downfield” considerably. For example, by institutionalizing rigor and discipline into

<sup>4</sup> Quoted from the Air Force Financial Management Vision Statement.

the process, we have already reduced our financial statement preparation cycle time by almost one-half!

Finally, all of this is built upon the foundation of our great people, which symbolizes the importance of the role they play in the successful execution of our plan. That is why we are taking a “people first” approach to develop, groom, mentor, educate and train our workforce (even as we streamline processes and integrate technology) so that they have the sophisticated skills to deliver 21st century financial management capability. Our Air Force Force Development Program—soon to be complemented by the National Security Personnel System (NSPS) that you passed earlier this year—is designed to purposefully broaden the experiences of our workforce throughout a career in public service to achieve both personal and organizational goals. The idea is to ensure the right people, with the right talent, are in the right jobs at the right time with the right tools and information they need to succeed and be challenged, rewarded and valued in the process. The result is an airman, military and civilian, that is progressively better qualified to tackle and solve the challenges of today and tomorrow; the result is an FM professional more capable of “financing the fight” for a much more complex and dynamic world.

#### TECHNOLOGY/SYSTEMS—AN ELEMENT OF TRANSFORMATION

As I stated previously, technology and systems—the Information Reliability and Integration piece of our financial management strategy—are but an element of a more comprehensive financial management reform journey and business management transformation that we have undertaken. But it’s a key element because if done correctly, it can institutionalize effective and efficient processes, integrate them, and empower our workforce to deliver more value-added services.

#### BUSINESS MANAGEMENT MODERNIZATION PROGRAM (BMMP)

##### *Enterprise Architectures*

It was with this prospect in mind that the Secretary of Defense launched the BMMP—a framework to deliberately modernize not just our financial systems, but also our business management systems infrastructure over time. From the very beginning, the Air Force has played a strong, collaborative, and involved role with our DOD and Service colleagues to develop BMMP products like the DOD Business Enterprise Architecture (BEA) and serve in domains and governance committees. This is a key point because an architecture lays out the fundamental standards and guidelines that describe how an enterprise coheres or how it operates in an integrated fashion—it’s a blueprint we’ve never had before and a major step forward!

Architectures “connect” an organization—they permit a large enterprise like DOD to align its many disparate pieces and achieve the kind of integration we’re all seeking. To drive this connection further, the Air Force has developed a complementary “business” architecture that addresses both combat support and business activities—the Air Force BEA. The Air Force BEA is linked to the DOD BEA and focuses on the activities and processes that provide business support to the Air Force warfighters; it also gives the Air Force the ability to define, evaluate, and improve these processes in a cross-functional environment. Finally, these DOD architectures are connected to the Federal Enterprise Architecture, which further extends alignment and standards government-wide.

##### *Enterprise Resource Planning Systems*

Because these aligned architectures form the basis for business and operational integration, we can employ modern tools like Enterprise Resource Planning (ERP) systems with greater confidence than we ever have. Having the architectural blueprint is one reason; another is that ERP systems are maturing (through greater scalability, interoperability, and flexibility) to include the unique requirements of the Department. DOD’s voice as a major ERP customer is growing louder and hence, strengthening the Department’s position to influence ERP industry capabilities. For example, all ERPs competing for U.S. Government business must pass Joint Financial Management Improvement Program (JFMIP) testing to achieve JFMIP standards-compliance certification.

A third reason why our “ERP readiness” has increased is the Air Force’s and DOD’s move toward net-centricity and data sharing—doing more of the fundamental and foundational tasks that facilitate enterprise integration. In this area, the Air Force has developed a common technical framework for providing warfighting and supporting activities with timely, accurate, and trusted combat support and business information. The technical framework has been developed under our Air Force portion of the DOD Global Combat Support System (GCSS). Within GCSS, the Air Force Portal (our gateway to applications and information) is the standard user

interface to all Air Force support data and functions. The Air Force Portal includes personalized, role-based access and single sign-on information for over 100 capabilities within combat support and business areas that have been reengineered to be self-service accessible to our airmen both at home and deployed. We see tangible evidence of this in the logistics, human resources and personal finance functions where they have greatly improved their respective service delivery capability to the warfighter.

A key part of the technical framework is a common Air Force-wide enterprise data warehouse. Incrementally, the Air Force is moving data locked in our legacy systems to this enterprise data warehouse which provides an integrated platform for the storing, processing, and managing of enterprise data. With the data warehouse, airmen and commanders can now rapidly access authoritative information and perform ad hoc queries dramatically reducing the time to perform critical support functions. For all these reasons outlined above, we are now pragmatically poised for the next stage to fully achieve the enterprise business and systems integration we all seek!

An excellent example of an ERP project being developed under the DOD BMMP and consistent with our EAS is the Defense Enterprise Accounting and Management System (DEAMS)<sup>5</sup>. The current Air Force accounting system has been with us since the early 1960s. DEAMS will replace a number of antiquated Air Force and U.S. Transportation Command (USTRANSCOM) systems with a new, commercial off-the-shelf (COTS) finance and accounting system that will process and record all budgetary, accounting, and vendor pay transactions; we will use this opportunity to perform business process reengineering and implement industry best practices throughout the Air Force. As an approved BMMP pilot project, DEAMS is being developed by a joint Air Force, USTRANSCOM, and DFAS team based outside of Scott Air Force Base and demonstrates a continuing trend toward DOD-wide—rather than component-specific—business and operational systems. Initial fielding of DEAMS at Scott AFB will occur by fiscal year 2007; current plans call for fielding to the Air Force Operational Major Commands by fiscal year 2009. The DEAMS Executive Steering Group includes representation from the Air Force, Army, Navy, OSD, and DFAS and thus the program has joint oversight.

The major takeaway from all this is that, today, we have a working blueprint for business and systems integration, we are beginning to field new systems based on that road map, and (as I'll discuss later) we have an effective process in place to drive and monitor progress and control and coordinate investments in business systems.

#### *Governance*

To direct and manage all these moving parts (i.e., develop/implement the BEAs, develop/implement a systems migration path or transition plan from the current to future state, ensure that IT investments are consistent with the BEAs and migration path) and provide direction and oversight for Air Force business and combat support modernization efforts, the Secretary of the Air Force and Chief of Staff created a BMMP analogue called the Air Force Operational Support Modernization Program (to emphasize the warfighter linkage) and chartered a Commanders' Integrated Process Team (CIPT). The CIPT is led by the Deputy Chief of Staff, Warfighting Integration (AF/XI) with the Air Force Chief Information Officer (AF-CIO) as the vice chair. Its membership includes Major Command (MAJCOM) representation and mirrors the DOD BMMP domains where we are full partners with our DOD and Service colleagues in five areas: human resource management, acquisition, accounting and finance/strategic planning and budgeting, logistics, and installations and environment. Together, we work through these domains to promote and achieve broad BMMP goals.

The Commanders' IPT will guide and integrate the transformation of processes and systems supporting Air Force business and combat support areas in order to meet BMMP goals and objectives. On an Air Force-wide basis, it will be the forum that provides Joint and Air Force Commanders with robust business support products, services, and information, effectively "closing the seams that divide our capabilities today."<sup>6</sup>

<sup>5</sup> The other projects are the Expeditionary Combat Support System (ECSS) and the Defense Integrated Military Human Resource System (DIMHRS). ECSS will replace (500+) legacy IT systems with a COTS IT suite of 10+ integrated modules with software/hardware, embedded/updateable best business practices, with capabilities in product support & engineering, supply chain management, expeditionary logistics C2, and maintenance, repair and overhaul while DIMHRS will provide a single database for all military personnel information.

<sup>6</sup> General John Jumper, USAF, as quoted in Government Executive Magazine, 19 March 2002 (<http://www.govexec.com/dailyfed/0302/031902db.htm>).

### *Funding and Investments*

All our business modernization funding and efforts will be overseen by the CIPT governance structure outlined above. To accomplish this oversight, the Air Force Chief Information Officer has implemented a comprehensive IT portfolio management process that is consistent with the provisions of the National Defense Authorization Act for Fiscal Year 2005. This process provides visibility into IT expenditures and enables control and prioritization of IT resource requests for sustainment of existing systems and development of new ones. For example, business systems expending over \$1 million (in modernization) must be certified for architectural compliance and sound business cases.

One of the success stories in our portfolio management efforts is that we've been able to hold the line on spending in the Combat Support/Business areas of the portfolio. For fiscal year 2005, our spending here represents only 9 percent of our total spending on information technology, which is down from about 11 percent in fiscal year 2004. Meanwhile, our spending on business and combat support IT is significantly less, almost half, of similar organizations within DOD. In both instances, we attribute progress to the discipline and rigor of our portfolio management process. Even more important than expense control, however, is that we're investing in the right systems that are standards-compliant and consistent with our BEA requirements and migration plan.

### **AIR FORCE INFORMATION RELIABILITY AND INTEGRATION (AFIR&I) ACTION PLAN (A.K.A., FINANCIAL IMPROVEMENT PLAN)**

This brings us to auditable financial statements and the progress we are making there. We don't consider financial statements an "end onto themselves" but rather an affirmation or validation that our systems and processes can, indeed, produce reliable, accurate, and timely financial and management information. The clean opinion is an objective declaration that our financial management engine is clicking on all cylinders.

In this area, like our counterparts in the other Services, we have developed an action plan to achieve auditable financial statements. We call it the Air Force Information Reliability and Integration (AFIR&I) action plan. The AFIR&I Action Plan is our roadmap to achieve an unqualified opinion on Air Force Financial Statements. The achievement of an unqualified opinion will assure decisionmakers throughout the Air Force that their decisions are based on sound financial data.

The AFIR&I Action Plan supports several efforts, including the President's Management Agenda (PMA) Scorecard Initiative, the DOD Financial Improvement Plan, and our Air Force Financial Management Strategic Plan. A governance structure, including an audit committee, an executive-level steering committee, along with our accountability and financial management Integrated Process Team, provides direction, monitors progress, and establishes accountability for detained actions that need to be accomplished in order to achieve an unqualified opinion and improved financial management services.

The AFIR&I Action Plan details specific actions for both our general and Working Capital Fund financial statements. It provides detailed taskings, responsible offices, estimated completion dates and the resources needed to achieve success. Accomplishment of the taskings requires significant effort on the part of our logistics and acquisition communities, as well as our accounting partners in DFAS.

Our business rules that provide the methodology for proceeding include developing assertion packages that detail the issues, the systems, the policies and procedures, and any corrective actions taken to resolve those issues. This step also includes an internal validation process by our Air Force Audit Agency. Our assertion packages are subsequently assessed by a DOD executive committee to ensure that, prior to expending funds, the area is ready for audit.

The Air Force has made significant progress over the past several years in identifying issues, developing solutions, and implementing corrective actions as documents in the AFIR&I Action Plan. However, we recognize that while much still needs to be done, we have a firm commitment throughout the Air Force to execute our plan.

Recently, the General Accountability Office (GAO) critiqued our plan and offered several constructive recommendations that we are presently incorporating. Once complete, Air Force will integrate our plan without our Service counterparts' plans to create a consolidated DOD Financial Improvement Plan, which will also be more closely linked to BMMP milestones and objectives. That will be key because, remember, information required for financial statements must come from many different sources—logistics, acquisition, human resources, and others.

Finally, the Secretary of the Air Force established the Air Force Audit Committee to help us improve the effectiveness of the financial statement preparation process and the unqualified audit opinion process. It is composed of non-Air Force individuals with extensive experience in Federal Government financial management. I personally met with the committee earlier this month and each member—all volunteers—is excited about the prospect of helping us build and strengthen our financial management capability.

#### CONCLUSION AND SUMMARY

I want to close, Mr. Chairman, by thanking you and members of this committee, on behalf of the Secretary and Chief of Staff, for your continued support of our airmen and their families in so many areas, particularly by providing them what they need to fight the global war on terror and defend the Nation. I'm personally grateful to the Armed Services Committee for the privilege of serving in this office and for your support of this important transformation.

I am excited, enthused, and passionate about what we're doing. We have a powerful vision focused on delivering integrated business products and sophisticated financial services to our commanders and airmen. Our transformation plan is prudent, comprehensive, and disciplined by architectures, portfolio management processes, and oversight structures like the Commanders' Integrated Product Team. Our investments in people, processes, and information technology are designed to address our capability shortfalls so any reduction in funding these activities and projects will severely impact providing operational capabilities to the warfighter.

We're fully aware of the magnitude and difficulty of this challenge and the hard work that lies ahead of us, but with your active participation and help and support for our plans—from BMMP to our Service equivalents, all of which form a solid framework to address our challenges—I am confident we will succeed and leave the Air Force and the Department more financially sound and capable of “financing the fight” for a promising future. Indeed, if we institutionalize these plans and build on the progress we've made to date, I believe this reform movement will enjoy the full support of succeeding administrations. I look forward to working with you and thank you again for this opportunity to address the committee.

# **The Air Force Financial Management Strategic Plan**

**FY03-08**



**Office of the  
Assistant Secretary of the Air Force  
(Financial Management and Comptroller)  
SAF/FM**

*“Financing the Fight”*



## Foreword

If strategic planning is the brain of any successful organization, and a talented workforce the heart, then superb financial management is the lifeblood of a dynamic, world-class enterprise.

*The Honorable James G. Roche, Secretary of the Air Force*

This is an era of unlimited potential. What if today we were fully integrated with all of our space, manned and unmanned platforms? What if they conversed? What if we didn't have to go through stovepipes and tribal representatives to get the information from one tribe to another? What if the machines had the opportunity to do this for us? We should be doing that today . . . .

*General John Jumper, Chief of Staff of the Air Force*

[The financial managers of the future will be] strategic partners recognized as the ultimate source for financial and management information, a world-class team providing high-quality, customer-focused decision support and financial services.

*Extracted from "A Vision for Financial Management Leadership and Strength" April 2002*

Sound and sophisticated financial management is a critical enabler for all Air Force operations; therefore, it must be as good as, or better than, the Air Force is at large. *That is what this plan is about*—positioning Air Force Financial Management to help shape the future of the best air and space force in the world. To achieve the vision and objectives contained here, we will have to leverage our budget, cost estimating, and financial operations capabilities and deliver integrated services. More importantly, we must jettison our transaction orientation and embrace a decision support mindset that proves to key leaders that the FM community has the sound analysis and consulting capability they need to make informed decisions.

Great organizations align their values and visions with their actions and results. *That is also what this plan is about*. The Air Force Financial Management Strategic Plan communicates clearly what we intend to do; it links our initiatives to our goals; and it serves as a coordinating mechanism to minimize redundancy and check for the omission of requirements.

These are exciting and demanding times, as everyone in the Air Force and the Department of Defense is transforming and operating—at the same time! *This is yet another reason for this plan*—not to give people “more work,” but to provide greater clarity about our key priorities so that we are all on the “same page.” The Financial Management Vision Statement expresses our great ambition; this plan provides the steps to get there and stay on track and highly focused.



I continue to be impressed and moved by the extraordinary commitment and accomplishment each of you in Air Force Financial Management gives the Air Force and the Nation. This Strategic Plan builds on that legacy and provides a path forward on which we can deliver the contribution and support our Air Force needs now and into the future. I challenge you to get involved, get informed, know your roles and responsibilities, and get going to step up and reach your potential to contribute even more.



*Financing the Fight!*  
*Michael Montelongo*

MICHAEL MONTELONGO  
Assistant Secretary of the Air Force  
(Financial Management and Comptroller)



# The Air Force Financial Management Strategic Plan



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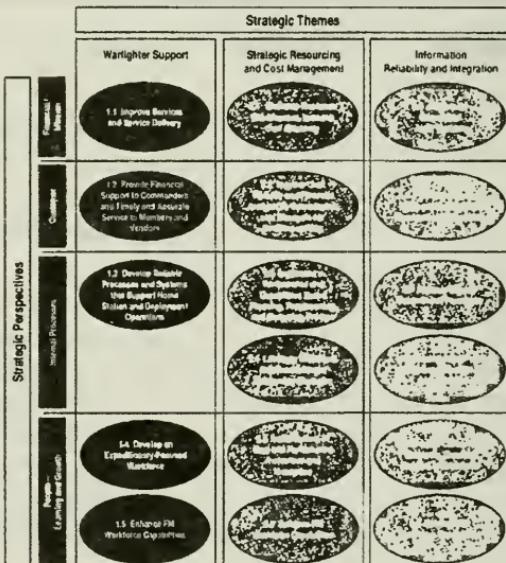
## Executive Summary

We developed the Air Force Financial Management Strategic Plan to translate our Financial Management Vision into actions and responsibilities so that we can realize and achieve the Financial Management Vision.

What if we had no Strategic Plan? We would still accomplish the routine work, but the actions to achieve the vision would be haphazard or nonexistent, uncoordinated, and disconnected. For real change to occur, organizations must overcome the status quo and the human tendency to resist change because doing what we always do is comfortable, predictable, and safe. We have a powerful vision that is very much supported by, and integrated with, the vision of the Air Force, Department of Defense, and the President's Management Agenda; however, we need a detailed roadmap that brings this vision to fruition. Furthermore, we must motivate our people to be dissatisfied with the status quo and be inspired to use their discretionary effort toward building something even greater and more effective and efficient. When faced with choices of how we use our limited time, the Strategic Plan should provide the guidance necessary for how we should use this time toward action that achieves our vision.

You will note that we have 17 strategic objectives to accomplish. The Balanced Scorecard Framework operationalizes the Strategic Plan and groups and aligns these objectives into themes and across perspectives. The perspectives represent the enabling elements of human resource development (People) and operational efficiencies (Internal Processes) that support customer requirements and demands (Customer) and result in achieving financial and mission imperatives (Financial and Mission). The themes provide a convenient way to focus our work on a select set of top priorities. The strategic themes, strategic objectives, and perspectives are shown in the figure at the right.

### Financial Management Strategy Map





Each of these strategic objectives is achieved by completing one or more associated strategic initiatives. We have prioritized the initiatives to ensure that the plan is focused, properly sequenced, and executable from a resources standpoint.

Leadership for each initiative has been assigned to an individual in the Air Force (HQ, MAJCOMs, Wings, etc.). The initiative leaders should mobilize a team, work the initiative, and report progress monthly to the Strategic Planning and Transformation Program Management Office. The Assistant Secretary (Financial Management and Comptroller) will chair quarterly strategy meetings to assess how the FM community is moving toward the achievement of its vision.

The planning cycle for the Strategic Plan comprises a continuing assessment of not only progress toward the vision but how the vision and plan should change as the Air Force changes as well. By including a look forward at quarterly meetings, immediate course corrections will be made, and the annual update of the plan will formalize and document these changes.



## Section 1 – Introduction

### 1.1 Purpose

The purpose of the Air Force Financial Management Strategic Plan (the Strategic Plan) is to provide a roadmap that translates the lofty aspirations of the vision into concrete, actionable, and measurable steps. It communicates priorities, focuses our effort, and serves as a filter to help determine where to invest our time.

### 1.2 Drivers of the Strategic Plan

We developed the Strategic Plan as a companion to our Vision Statement. It answers the question, “How do we make our vision a reality and, in the process, make Air Force Financial Management fundamentally better than it is now?” In addition, it fulfills our statutory, regulatory, and policy commitments. (Appendix A contains a detailed discussion of the broad guidance that shaped the Strategic Plan, including requirements and guidance from Congress, the Executive Branch, Department of Defense, other Federal agencies, and the Air Force.)

#### 1.2.1 Congress and the Executive Branch

Federal law requires the Air Force to have a financial management strategic plan (10 U.S.C. Part D, 8022C). This plan should be consistent with the overarching message of the President’s Management Agenda (PMA), August 2001. The PMA identifies five broad government-wide initiatives:

- Strategic management of human capital
- Competitive sourcing
- Improved financial performance
- Expanded electronic government
- Budget and performance integration

Other laws emphasize financial management reform, including the Chief Financial Officers Act of 1990, the Government Performance and Results Act of 1993, the Government Management Reform Act of 1994, and the Federal Financial Management Improvement Act of 1996.

#### 1.2.2 Department of Defense and Other Federal Agencies

The Department of Defense and other Federal agencies issue regulations that shape Air Force financial management and outline the particular requirements that should be addressed in the Strategic Plan: Joint Financial Management Improvement Program (JFMIP) systems requirements, Department of Defense Financial Management Regulations (FMR), Office of Management and Budget (OMB) circulars, various U.S. Treasury financial management regulations and titles, and the Department of Defense Business Management Modernization Program (BMMMP), among others.



### 1.2.3 Air Force Guidance

Air Force long-range planning builds the strategy that provides the foundation for transformation and prepares for future military requirements. This strategy results from systematic examination of future demands the Air Force will face as a member of America's total military force. The Air Force Financial Management Strategic Plan is shaped by the need for FM to be a strategic partner within the Air Force, as well as with other segments of the military, in addressing these future needs.

## 1.3 Strategic Planning Approach

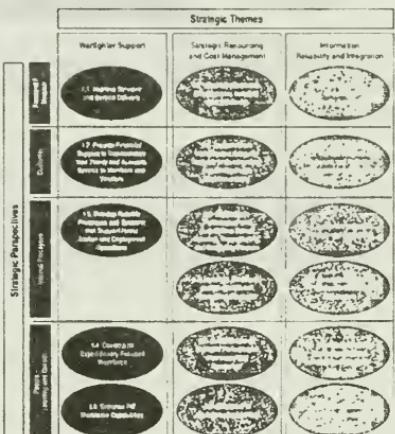
In creating the Strategic Plan for FY03-08, the Assistant Secretary of the Air Force (Financial Management and Comptroller), SAF/FM, has adopted a process methodology designed to ensure that the Strategic Plan addresses all parts of the Financial Management organization. The aim is to institutionalize this new approach to strategic planning for the FM community.

We developed this Strategic Plan over the course of several strategic summits attended by all of the FM senior leaders across the Air Force. The strategic summits and interim meetings established a common understanding of existing transformational efforts across FM, developed a shared focus for our future, and outlined the path for the journey to achieve this vision. (Appendix B contains a more detailed description of the planning approach.)

The Strategic Plan employs the Balanced Scorecard (BSC) Framework to operationalize the plan and make it actionable and measurable. It is designed for easy communication and focused execution. The BSC groups and aligns the plan's 17 strategic objectives into themes and across perspectives. The perspectives represent the enabling elements of human capital development (People) and operational efficiencies (Internal Processes) that support customer requirements and demands (Customer) and result in achieving financial and mission imperatives (Financial and Mission).

The themes provide a convenient way to focus our work and communicate a select set of top priorities. These themes are shown in the figure at the right. Within the three broad strategic themes (and across the perspectives), this Strategic Plan arrays the 17 strategic objectives that describe outcomes key to the future success of FM. Progress on achieving the outcomes of the strategic objectives is achieved by executing the associated strategic initiatives. Although most of the strategic objectives have more than one strategic initiative, we have prioritized the initiatives to ensure that the Strategic Plan is executable from a resources standpoint.

**Financial Management Strategy Map**

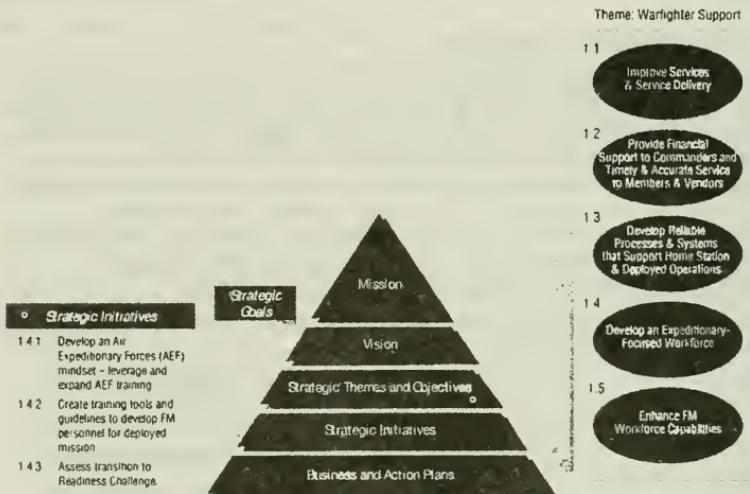




## 1.4 Organization of the Document

Section 2 of this document contains the essential elements of the Strategic Plan: the FM community's mission, values, vision, and goals and its strategic themes, objectives, and initiatives. (Business and action plans for the individual strategic objectives and initiatives will be developed, but are not included in this document.)

### Essential Elements of the Strategic Plan



Section 3 addresses the management and execution of the Strategic Plan. It includes a discussion of the governance structure for execution, an approach for monitoring progress, the annual planning cycle, and the relationship of periodic and quarterly meetings to the annual Strategic Plan update.

Appendix A contains details on key strategic planning guidance that informed the Strategic Plan. Appendix B contains the Air Force Financial Management Vision Statement. Appendix C provides details about how the plan was developed, particularly the relationship of the BSC to strategic planning. Appendix D contains the details about the strategic objectives, measures, targets and initiatives that are summarized in Section 2. Appendix E is a list of acronyms used in this document.



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## Section 2 -- Air Force Financial Management Strategic Plan

### 2.1 Mission, Values, Vision, and Goals

#### 2.1.1 Mission

An organization's strategy flows from its mission and core values. A mission articulates the overarching reason for the organization's existence and its role within the larger enterprise. Values reflect the beliefs that serve as the foundation for behavior and internal and external interactions. The refined Air Force Financial Management (FM) mission is:

*"Deliver global financial services, manage Air Force resources, and help Air Force leaders be effective and efficient resource stewards and make informed resource decisions to defend the United States and protect its interests through air and space power."*

#### 2.1.2 Values

FM shares the Air Force's core values:

Integrity First – *Integrity is a character trait. It is the willingness to do what is right, even when no one is looking. It is the "moral compass"—the inner voice; the voice of self-control; the basis for the trust imperative in today's military.*

Service Before Self – *tells us that professional duties take precedence over personal desires.*

Excellence In All We Do – *directs us to develop a sustained passion for continuous improvement and innovation that will propel the Air Force into a long-term, upward spiral of accomplishment and performance.*

#### 2.1.3 Vision

Mission and values statements typically remain fairly stable over time. In contrast, a vision statement is usually more frequently modified to reflect changing internal and external conditions, as well as mission imperatives. Visions should paint the picture of the future state, clarify the direction of the organization, and help individuals understand why and how to support the organization.

The Financial Management Vision, dated 16 April 2002, discusses the future state that the Air Force Financial Management community should strive to achieve through strategic and transformational efforts. The Financial Management Vision frames the future where FM assumes its new role as a key strategic partner in Air Force decision-making. The complete text of the Financial Management Vision can be found in Appendix B and on the SAF/FM website:

<http://www.saffm.hq.af.mil>



The Financial Management Vision can be summarized as follows to reflect the future of the FM community:

***"Strategic partners recognized as the ultimate source for financial and management information; a world-class team providing high-quality, customer-focused decision support and financial services"***

For FM professionals, this means a cultural shift from managers to strategists, business partners, and top advisors. This means a change in emphasis in the roles of comptroller or financial manager from transactions toward decision support. The consequences and benefits of the FM vision are summarized in these extracts from the Financial Management Vision:

*[The Financial Management Vision] . . . paints a picture of where we want to be when we "grow up." a picture of hope, professional respect, greater relevancy, and increased involvement in shaping the future of the Air Force. This is a world where we have the tools and skills that we need to complete our work with optimal efficiency. This is an FM where broad professional and personal growth and development are integral to our jobs. This is an FM whose processes are streamlined, free of rework, rekeying, and manual intensity. This is an FM free of data calls because financial and feeder systems are fully integrated, compatible, and interconnected in an end-to-end enterprise architecture.*

*This is an FM where our professionals, enabled by enhanced skills, efficient processes, and flow-through systems now have the time to perform the highly valuable analysis that our commanders want and need to support the warfighter. That's what I mean by more decision support and less transaction processing. This capability will be as sophisticated and leading-edge as the weapon systems and warfighting concepts of tomorrow. And to get there, we will reduce the cost of delivering our services so that we can offer more decision support. This, my fellow FMers, is where we're going, where we must be, and I believe we can make this dream a reality.*

Each step toward realizing the Financial Management Vision will reveal new opportunities to improve support to the Air Force—that is, deliver great service at the lowest possible cost—and sharpen the skills critical to delivering decision support. As Financial Management executes its strategy and sharpens its analysis and decision support skills, we will transform our role by proving our value as trusted financial advisors to Air Force commanders. The people in Financial Management are critical and are the heart of the success of the Financial Management strategy. With this understanding, Financial Management professionals will continually develop individually through training, self-study and developmental assignments and organizationally through appropriate alignment to strategic objectives and goals.

From the perspective of the overall Air Force and FM's customers, the vision might be described like this:

*Imagine an Air Force operating at peak effectiveness and efficiency . . . where every dollar strikes the correct balance between supporting the mission, maintaining the infrastructure, and taking care of our people.*



... Where the key leadership knows the true costs of its major processes and can make the proper trade-offs when confronted with unforeseen requirements.

... Where Air Force people can take care of all their pay requirements from their phone or computer, without a trip to Finance.

... Where the status of vendor payments is transparent, and where connections with DFAS are seamless.

*In this Air Force, the comptroller is a key member of the senior staff, and financial managers spend time analyzing options instead of working on complaints.*

*Now, imagine an Air Force where this level of performance is achieved throughout all levels.*

*This is what the world will be like for the comptroller of the future, and it is not a fantasy . . . in fact, it is right around the corner. With new focus on people, processes, and technology, we will bring about the necessary transition.*

The Financial Management Vision is congruent with and fully supports the Air Force vision. The Air Force vision sets forth the Service's core competencies and the command and control through which they are employed through innovation and adaptation in the face of the changing and emerging security environment. In January 2003, the Secretary of the Air Force defined the Air Force competencies as: Developing Airmen, Technology-to-Warfighting, and Integrating Operations. The Air Force Financial Management Strategic Plan (the Strategic Plan) supports these competencies in the following ways:

Developing Airmen – supported by the strategic objectives in the People: Learning and Growth perspective of the Financial Management Strategic Plan

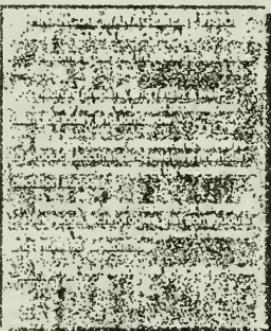
#### Strategic Goals

Technology-to-Warfighting – supported by the strategic objectives in the Warfighter Support and Information Reliability and Integration themes of the Financial Management Strategic Plan

Integrating Operations – supported by the strategic objectives in the Information Reliability and Integration themes and the Strategic Resourcing and Cost Management themes of the Financial Management Strategic Plan

(Additional information on the Air Force mission, vision, and values can be found in Appendix A, Section A.3.)

#### 2.1.4 Goals



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Five strategic goals help bring the Financial Management Vision into clearer focus. These strategic goals, shown at right, describe outcomes necessary for the vision to become a reality. The strategic themes and goals are expressions of the change needed to achieve the vision: the themes are focus areas for action; these actions drive realization of the goals. The relationship between the strategic themes and the five strategic goals is illustrated below.

### Relationship Between Strategic Goals and Strategic Themes

STRATEGIC GOALS	STRATEGIC THEMES		
	Warfighter Support	Strategic Resourcing and Cost Management	Information Reliability and Integration
1 Strategic partner		<input type="radio"/>	<input type="radio"/>
2 Well-trained, highly educated professional team	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3 Efficient processes, accurate financial information, sophisticated decision support	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4 Reduce costs	<input type="radio"/>	<input type="radio"/>	
5 World-class service	<input type="radio"/>		

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To continue this journey toward realizing the future state described in the Financial Management Vision, we have identified strategies and actions that begin to transition the vision into reality. These are the strategic themes, objectives, initiatives, and actions that make up this plan.

## 2.2 Strategic Themes

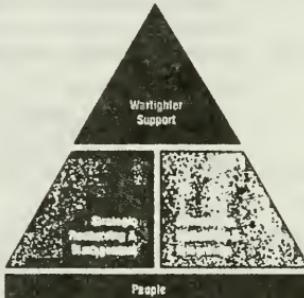
Three strategic themes provide a convenient way to categorize our strategic objectives and initiatives and focus our work on a select set of priorities:

**Warfighter Support:** FM will be an expeditionary-focused workforce, ready to deploy, support those deployed, and maintain effective home-station operations. This means providing the most cost-effective financial services to airmen around the world. The FM community, as a strategic partner to the warfighter, will provide quality, timely, and accurate services to support commanders and other senior leaders.

#### Strategic Resourcing and Cost Management:

FM will maximize resource effectiveness and cost efficiencies by linking systems, activities, and resourcing strategies to outputs and performance. The work under this theme includes linking programming and budgeting processes to performance and

#### Strategic Themes





capabilities (to create a performance management structure) and identifying and pursuing innovative resourcing strategies. These efforts benefit the warfighter by providing the optimal mix of resources for Air Force operations, FM operations, service delivery, and cost management.

**Information Reliability and Integration:** Work undertaken as part of this theme will produce relevant, accurate, and timely financial information that is seamlessly integrated into the financial environment so that all the information needed to perform business analysis is readily available. This theme addresses the information needs of our commanders and senior leadership and satisfies the regulatory requirements for sound financial management at all levels within the Air Force.

The three themes are built upon the foundation of "People," symbolizing the importance of the Financial Management workforce to the successful execution of the Strategic Plan.

### 2.3 Air Force Financial Management Perspectives

The Balanced Scorecard approach applies a standard set of perspectives to organize, align, and measure multiple dimensions of an organization. The Air Force FM leadership has adopted the following perspectives for FM:

**Financial and Mission:** Support the warfighter by providing timely and relevant financial management information for informed decision-making and world-class service across the Air Force. Provide financial analysis that supports traditional and innovative resourcing and accurate costing of Air Force operations.

**Customer:** Serve commanders and managers as trusted advisors. Partner by providing robust and reliable financial analysis to support timely, accurate decision-making. Deliver world-class financial service and support to internal and external customers.

**Internal Processes:** Develop effective, efficient processes and IT solutions to optimize financial management performance. Focus on core FM processes (accounting, programming, budgeting, costing) and financial services (vendor pay, personnel pay, travel reimbursement) that support warfighters, commanders, and managers.

**People – Learning and Growth:** Build a workforce with capabilities to deliver world-class FM services. Create a work environment that balances quality of life and work, and promotes diversity, rewards, incentives, and training. Attract and retain the best financial people, both military and civilian (including support contractors).

### 2.4 Strategic Objectives

Strategic objectives are the desired outcomes that focus efforts toward the achievement of goals and, ultimately, the vision. The strategic objectives arrayed in each of the theme areas can be aligned with the strategic perspectives described in Section 2.3 to form a strategic map. This map, found at the end of this section, illustrates how the 17 strategic objectives fit into a balanced and coordinated plan. The major features of each strategic objective are described briefly below.



**Warfighter Support** – These strategic objectives are aimed at developing an expeditionary-focused FM workforce (military and civilian), trained and prepared to support deployed commanders and members:

- Improve traditional FM services (pay, travel, and procurement, for example); add new and innovative ones (such as the use of debit cards in deployed locations); deliver all services in more automated ways.
- Provide financial support in a deployed environment to deployed commanders; deliver timely and accurate service to members and vendors through improved deployed operations training for FM personnel and by providing more off-site support.
- Develop reliable processes and systems that support home-station and deployed operations, including automated travel and pay systems.
- Develop an expeditionary-focused workforce by expanding Air Expeditionary Forces (AEF) training and creating tools and guidelines for deployed operations.
- Enhance FM workforce capabilities by identifying needed skills and competencies and providing training to develop those skills.

**Strategic Resourcing and Cost Management** – These strategic objectives are designed to maximize resource effectiveness and cost efficiency by linking systems and resourcing strategies to measurable performance:

- Review the resource management process and develop an expense management plan that maximizes resource effectiveness and increases cost efficiency.
- Reengineer processes and develop new tools to improve cost visibility and financial analysis to provide commanders and managers the data they need to make informed decisions.
- Incorporate performance and measures linked to goals and objectives into the planning, programming, and budgeting process to create performance-based/capabilities-based budgets.
- Investigate and implement ways to use traditional and nontraditional resourcing methods, such as use of private-sector resources.
- Provide training and tools to financial managers to instill a culture of cost and performance awareness and innovation.
- Enhance FM workforce skills by improving recruiting, retention, and training, as outlined in the Workforce Management Strategic Plan.

**Information Reliability and Integration** – These strategic objectives help financial managers provide relevant and reliable information that supports decision-making:

- Achieve an unqualified ("clean") audit opinion each and every time, signifying that our books are in order and enhancing public trust.
- Provide relevant and reliable financial information by reengineering processes and improving tools.



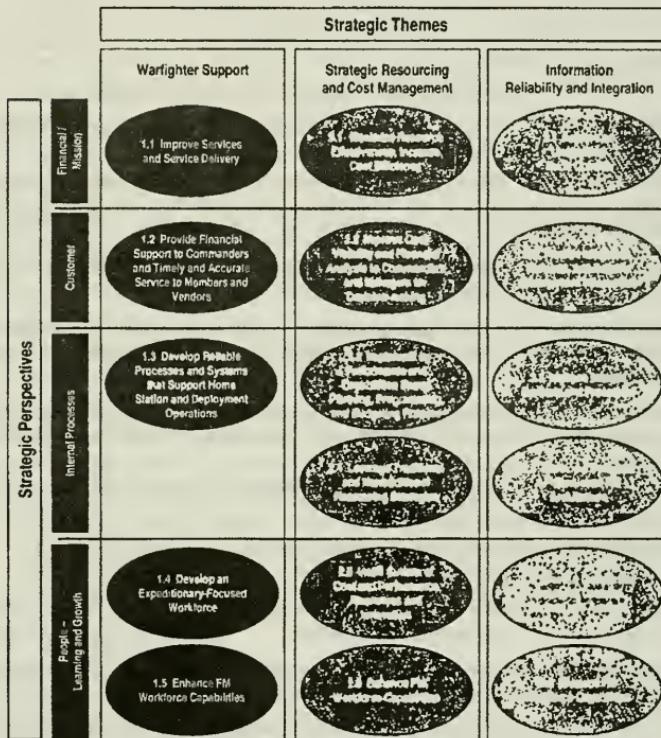
Improve internal controls by upgrading processes and building appropriate controls into new and existing processes.

Develop a Department of Defense- and Air Force-consistent FM architecture for FM systems.

Develop a culture that embraces decision support by providing the skills and capabilities to perform financial analysis and enhanced decision support.

### Financial Management Strategy Map

Help USAF Make Better Decisions and Be an Effective and Efficient Steward of Resources  
"Deliver Great Service for Less Cost"





## 2.5 Strategic Initiatives

More than 50 separate strategic initiatives have been identified to accomplish the strategic objectives. All strategic objectives have more than one initiative, with some having six or more. These initiatives may require several years to complete, but all have measurable outcomes and designated performance targets. As initiatives are executed and progress is measured, the results of progress measurements can be integrated using the Balanced Scorecard to ensure that the FM community is making progress uniformly and consistently.

To carry out many of these initiatives, the FM community will reach out to other communities and build collaborative relationships across functional boundaries. This means that FM must work with warfighters, resourcers, acquirers, and others to carry out many initiatives.

The following Balanced Scorecard matrices provide a summary of the strategic objectives, associated measures and targets for those objectives, and specific initiatives for each strategic objective. Additional detail can be found in Appendix D.

Please note the following as you review the Balanced Scorecard matrices:

Blue shading in the Initiatives column denotes current Financial Management Transformation Initiatives, grey shading denotes planned Financial Management Transformation Initiatives, and non-shaded denotes other strategic initiatives identified to achieve the strategic objectives.

The following notation is used for objective measures and targets:

Unless otherwise noted, Target (SO) uses FY03 as a baseline.

Measures are denoted using "M1", "M2", "M3" etc. for each strategic objective.

Targets are denoted using "T1", "T2", "T3", etc. for each strategic objective.

The numerical notations for measures and targets are aligned; that is the specific target for M1 is designated T1.

Targets denote achievement of the measure using FYs. These FY notations reflect fiscal year ends. "TBD" (to be determined) designations contained in these Balanced Scorecard matrices table will be updated during Q1 FY04.



## Theme 1: Warfighter Support

Strategy Map		Strategic Objective	Measure (SO) *	Target (SO) *
Financial Mission		1.1 Improve services and service delivery	1.1.M1 Customer Satisfaction Survey scores 1.1.M2 First call resolution 1.1.M3 Fully operational Finance and HR office, pay and entitlements merged into single office	1.1.M1 50% customer satisfaction with a year: 35% by FY05 1.1.M2 75% with 24 hours, 100% with 72 hours by FY05 1.1.M3 100% operationally ready by FY05
Customer		1.2 Provide financial support to deployed commanders, leaders and airmen and airmen to deployed service members to vendors in a deployed environment	1.2.M1 100% qualified contractor available to support deployed locations	1.2.M1 100% by FY05
Internal Processes		1.3 Develop reliable processes and systems that support home-station and deployed operations	1.3.M1 Reliability of financial systems 1.3.M2 Effectiveness of processes 1.3.M3 Reduced interest penalty payments 1.3.M4 Reduction in lost discounts	1.3.M1 75% improvement per year in complete reliability 1.3.M2 Effectiveness of processes as % of requested time (days) 1.3.M3 75% reduction by FY05 1.3.M4 50% reduction (dollar value) by FY05 75% reduction by FY07
People - Learning and Growth		1.4 Develop an expeditionary force and workforce	1.4.M1 Percentage of FM personnel available to deploy per SOFs 1.4.M2 Percentage of expense cost graduating school by FY05 1.4.M3 Percentage of deployed FM personnel attending pre-deployment training 1.4.M4 Validated % trained as reported in AFPM 1.4.M5 Number of returned personnel from AOR as "hot capital"	1.4.M1 70% by FY05, 80% by FY05, 100% by FY08 1.4.M2 Enlisted target: 100% officer target: 100% 1.4.M3 5% increase annually from FY03 to FY05 1.4.M4 Validation is 90% by FY05 1.4.M5 Not capable < 2% by FY05
		1.5 Enhance FM workforce capabilities	1.5.M1 Percentage of FM workforce trained in Section support 1.5.M2 Percentage of workforce meeting SAF/FM Professional Development guidelines	1.5.M1 50% by FY05, 75% by FY08 1.5.M2 20% by FY05, 50% by FY08

\* For goals 1A through 1D, please refer to the map on Page 12 for detailed descriptions.

"Financing the Fight"

## Theme 2: Strategic Resourcing and Cost Management

Strategy Map		Strategic Objective	Measure (SO) *	Target (SO) *	Initiatives *
Financial / Mission		2.1 Maximize resource effectiveness and increase cost efficiency	2.1.M1 Percentage % cost reduction of operations from baseline year 2.1.M2 Application of nontraditional sources in AF TOA	2.1.1.1 At least 10% -15% over FY05 2.1.1.2 Three new sources (at least \$1M each) by FY06	2.1.1 Develop Support Plan 2.1.2 Create Support Plan 2.1.3 Develop
Customer		2.2 Provide improved cost visibility and financial stability for decision-making teams to communicate and manage	2.2.M1 Availability of standardized cost data for each program 2.2.M2 Use of earned value analysis for all major weapon system programs	2.2.1.1 75% by FY05, 100% by FY07 2.2.1.2 75% by FY05, 100% by FY07	2.2.1 Develop Growth Supt 2.2.1.1 2.2.1.2 2.2.2 Implement and build 2.2.3 Define a plan for cost 2.2.4 Implement
Internal Processes		2.3 Design and implement a performance- and capabilities-based planning, programming, and budgeting process	2.3.M1 Percentage of programs and budget expressed in performance or capability terms 2.3.M2 Percentage of mission-based budget as a percentage of TOA 2.3.M3 Creation implementation of performance measures by percentage of TOA	2.3.1.1 30% for FY05 AFPCM, 100% by FY08 2.3.1.2 60% by 2005, 100% by 2008	2.3.1 Develop AFPCM 2.3.2 Redesign AFPCM activities and 2.3.3 Implement AFPCM 2.3.4 Review / develop pre- acquisition 2.3.5 Implement evolutionary AFPCM
People - Learning and Growth		2.4 Leverage traditional and nontraditional resourcing strategies	2.4.M1 Database of private-sector funds invested in AF activities 2.4.M2 Future costs avoided because of leveraged resources	2.4.1.1 \$1B/year, starting FY06 2.4.1.2 \$0.5B/year, starting FY06, against an FY03 baseline	2.4.1 Leverage private sector 2.4.2 Adapt AF processes and
		2.5 Build culture of cost and performance awareness and innovation	2.5.M1 Number of AF people trained in cost and performance management 2.5.M2 Number of functionals trained in cost and performance 2.5.M3 Percentage of AF community (i.e. members or leaders of Committees of Practice)	2.5.1.1 100% by end FY07 2.5.1.2 100% by end FY07 for selected professionals 2.5.1.3 20% AF community participation in FY04, 50% in FY05, 100% in FY06	2.5.1 Build AF culture of cost and budget 2.5.2 Adapt AF private-sector practices 2.5.3 Implement 2.5.4 Develop for HQBaseV 2.5.5 Expand modeling
		2.6 Enhance AF workforce capabilities	Please refer to Strategic Objective 1.3 and the initiatives contained there.		

"Financing the Fight"

## Theme 3: Information Reliability and Integration

Strategy Map		Strategic Objective	Measure (SO)*	Target (SO)*	Initiatives *
Financial Health	Financial Health	3.1 Achieve an unbiased audit opinion	3.1 M1 % of fiscal year-end financial statements planned to be audited/reconciled 3.1 M2 % of budgetary systems evaluated 3.1 M3 % of General Fund Financial Statement lines ready for external review 3.1 M4 % of Working Capital Financial Statement lines ready for external review 3.1 M5 % of General Fund Principal Statement of Financial Position and Statement of Financial Performance 3.1 M6 % of AF CFO Reporting Table Financial Statements issued on time	3.11 100 3.12 100 3.13 100 3.14 100 3.15 100 3.16 100 3.17 100	3.1.1 Ensure and EVCFP audience is audited/reconciled 3.1.2 Ensure and EVCFP audience is audited/reconciled 3.1.3 Ensure and EVCFP audience is audited/reconciled 3.1.4 Ensure and EVCFP audience is audited/reconciled 3.1.5 Ensure and EVCFP audience is audited/reconciled 3.1.6 Ensure and EVCFP audience is audited/reconciled 3.1.7 Ensure and EVCFP audience is audited/reconciled
Customers	Customer Experience	3.2 Provide integrated relevant and valuable information to customers	3.2 M1 Number of primary and feeder systems required to support financial reporting 3.2 M2 Single source of real-time data 3.2 M3 Percentage of transactions requiring annual reconciliation after initiation of transaction 3.2 M4 Reduce total FIM operating costs by implementing a strong data technology	3.2.1 1 Single source of systems 50% by FY2014 100% by FY2016 3.2.2 Single source of real-time data by FY08 3.2.3 10% reduction per year 3.2.4 10% per year	3.2.1 Ensure TD 3.2.2 Complete TD 3.2.3 Optimize process and technology 3.2.4 Stand up TDs Product Logistics Co 3.2.5 Optimize process
Internal Processes	Internal Processes	3.3 Improve internal controls and processes	3.3 M1 Number of documented and approved financial reconciliations by FY07 3.3 M2 Number of long programs mapped, managed and monitored	3.3.1 Achieve zero documented and approved financial reconciliations by FY07 3.3.2 100% by FY04	3.3.1 Ensure TD 3.3.2 Complete TD 3.3.3 Optimize process and technology 3.3.4 Improve AF processes 3.3.5 Complete TD 3.3.6 Optimize process and technology 3.3.7 Review AF fun processes
Project Learning and Growth	Project Learning and Growth	3.4 Ensure G-7 FM architecture consistent with AF and DoD Financial Management Systems implementation SACAFS enterprise arch SACAFS enterprise arch	3.4 M1 Number of legacy systems that included in total 40 or less in operation 3.4 M2 Number of new businesses operating under the EA Ready-to-operate viability measures	3.4.1 Reduce 100% from business to harmonized and monitoring and systems in AF and DoD financial management 3.4.2 40 less business AF wide by FY09 3.4.3 100% by FY13 FIM	3.4.1 Partner with A 3.4.2 Partner with D 3.4.3 Optimize process and technology 3.4.4 Review AF processes 3.4.5 Complete TD
3.5 Ensure AF Financial Readiness	3.5 Ensure AF Financial Readiness	3.5 M1 Improvement in survey of customer satisfaction in FM culture 3.5 M2 Improvement in employee attitudes re FM culture	3.5.1 1 Improvement in survey of customer satisfaction in FM culture 3.5.2 5% improvement by FY03	3.5.1 Ensure AF Financial Readiness 3.5.2 Improve FM culture 3.5.3 Build TD 3.5.4 Work with SM 3.5.5 Redesign AF	

Please refer to Strategic Objective 1.5 and the initiatives contained there.

"Financing the Fight"



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## Section 3 – FM Strategic Planning Management

### 3.1 Governance

Governance and the governance structure created and used by senior leaders provide the comprehensive framework for managing an organization and its work. One of the principal tasks of governance is to communicate with everyone in the organization about the direction the organization is taking.

The governance process for the Air Force Financial Management Strategic Plan (the Strategic Plan) includes setting strategic objectives, establishing and monitoring key relationships, managing and monitoring progress, reporting results, and maintaining communications among all who are executing the Strategic Plan. Governance is effective when there is:

- Clear accountability
- Clarity of purpose
- Transparency and openness to resolve issues
- Effective stewardship

#### 3.1.1 Sponsorship and Leadership

The Air Force Financial Management Strategic Plan is sponsored by the Assistant Secretary of the Air Force (Financial Management and Comptroller), SAF/FM. The Assistant Secretary and the Principal Deputy Assistant Secretary exercise executive sponsorship of the Strategic Plan through personal involvement in creating the Strategic Plan and participation in regularly scheduled meetings to review progress. The Strategic Planning and Transformation Program Management Office (FMT PMO) supports SAF/FM in monitoring the Strategic Plan, with the FMT PMO Director serving as the personal representative of the SAF/FM. Through effective leadership, role modeling, and definition of clear roles and responsibilities, SAF/FM creates a shared commitment to the vision, mission, and strategy for Air Force FM.

The Financial Management advisory board provides advice and counsel to the Assistant Secretary regarding financial matters, including the Strategic Plan. The Assistant Secretary chairs the quarterly meetings of the board, which is comprised of senior leaders from the Air Force FM community and other Air Force communities. The diversity of thought that comes from this interaction enriches the input that the board can provide to the Assistant Secretary. The charter for the board is under development and will be available from the FMT PMO.

Leadership for the strategic objectives and initiatives portions of the Strategic Plan is assigned throughout the Air Force FM community, with two groups having specific responsibilities at the strategic objective and initiative levels:

The Deputy Assistant Secretaries (FMB, FMC, and FMP) each have responsibility for the strategic objectives assigned in accordance with their functional responsibilities.

Leadership for individual initiatives has been (or will be) assigned to senior financial managers. Initiative leads are responsible for, among other things, mobilizing



resources, creating business plans, and reporting to the FMT PMO. They work with their initiative teams to address the challenges the FM community faces in moving into the future.

### **3.1.2 FMT PMO and Initiative Leaders**

The FMT PMO is based at Air Force Headquarters and reports to the Assistant Secretary for Financial Management and Comptroller. The FMT PMO has the following responsibilities:

- Linking strategy to the initiative teams and the MAJCOMs
- Engaging with the initiative teams to ensure the appropriate execution of the Strategic Plan
- Tracking progress and working with SAF/FM to refine direction, as needed
- Auditing performance through agreed-upon measures
- Coordinating and communicating with the initiative teams, MAJCOMs, and the FM community
- Providing training and skills development (PM, methods, etc.) for initiative teams, as needed
- Scheduling and organizing progress meetings

Initiative leads have the following responsibilities:

- Developing business plans for their respective initiative(s)
- Resourcing initiative teams
- Developing and delivering communications about their respective initiative(s) (in coordination with the FMT PMO)
- Managing stakeholder engagement (with FMT PMO)
- Executing the initiatives
- Providing reports to the FMT PMO
- Participating in quarterly progress meetings, as required

## **Business Plans and Action Plans for Initiatives**

The initiative leads will be responsible for Business Plans and Action Plans (work breakdown schedule) for each initiative. Some of these initiatives may require several years to complete, and the action plans for them could be quite detailed. For this reason, neither the Action Plans nor the Business Plans are included here, but may be obtained from the FMT PMO upon request.

## **Progress and Monitoring Success**

Without effective monitoring, work on initiatives will inevitably fall prey to the press of operational duties, regularly scheduled meetings, preparation of reports, etc. An effective process

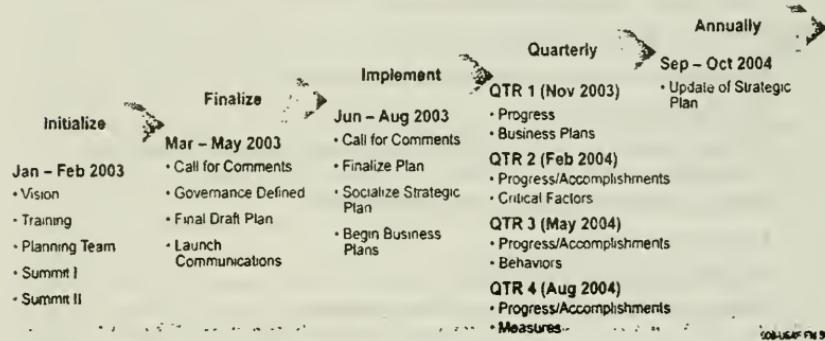


for monitoring progress will keep the work of the initiative teams on track, but should not be inflexible or bureaucratic. Progress on the Strategic Plan will be measured in two ways: through regular reporting and quarterly meetings. In addition to regular progress reports, the Assistant Secretary will chair quarterly strategy meetings. At these sessions, leadership will assess how the FM community is progressing toward the vision. These meetings will include a brief review of monthly progress and will focus on those initiatives requiring specific guidance; however, most of the quarterly progress assessment will focus on strategic objectives and assessing progress against the measures associated with these objectives. At these meetings, we will identify overlapping initiatives, reduce duplication of effort, and reinforce common, shared objectives.

### 3.3.1 Annual Strategic Planning Cycle

A good strategic plan is not a static document. Once created, the plan must be constantly reviewed and revised—not because the vision has changed, but because the organization discovers the situation has changed. The planning cycle for the Air Force Financial Management Strategic Plan, shown below, is based on a continuing assessment of progress and proposed actions to achieve the objectives. By performing such assessments at the quarterly progress meetings, FM leadership can make immediate course corrections.

#### Strategic Planning Cycle



The Initialize and Finalize phases for strategic planning FY03-08 shown above are complete. The Implement phase will initiate the quarterly reporting calendar. The annual update of the Strategic Plan (required by law) will occur in 2004 to incorporate required revisions to the Strategic Plan that account for completed initiatives and other changes.

### 3.3.2 Quarterly Sessions (November, February, May, August)

The quarterly planning sessions are designed as one-day meetings. Attendees include the FM advisory board members and other selected FM leaders. The first part of each meeting will be devoted to a review of progress of strategic initiatives. The purpose of these reviews will be to



put in place actions, as necessary, to assist the initiative team (e.g., scope, schedule, resources). The second part of each meeting will be devoted to focus areas suitable for engaging the FM leadership. The focus areas are summarized below:

**Quarter 1 (Nov 03): Business and Action Plans** – This session will include a review of Business and Action Plans submitted by the initiative leads and an assessment of the feasibility of the plans. This review will include the first assessment of progress using the strategic objective measures.

**Quarter 2 (Feb 04): Critical Factors** – This session will include a review by initiative leads of the factors they see as critical to success in their initiative(s) and the specific strategic objective(s) their initiative supports. Based upon these inputs, FM leadership will work to identify factors critical to the success of the Strategic Plan. This will be the second meeting at which progress of strategic objectives is assessed using the strategic objective measures.

**Quarter 3 (May 04): Behaviors** – At this session, FM leadership will work to identify behaviors that contribute to (or impede) the success of the Strategic Plan. Behavior assessments are particularly important because several of the strategic objectives deal with changing the culture in the FM community. This will be the third meeting at which progress of strategic objectives is assessed using the strategic objective measures.

**Quarter 4 (Nov 04): Measures** – At this session, the FM leadership will examine the measures that have been used during the first year of the Strategic Plan. Drawing upon the assessment of the usefulness and reliability of these measures, FM leadership will suggest improvements or additional measures that relate to real progress. This will be the fourth meeting at which progress of strategic objectives is assessed using the strategic objective measures.

### 3.3.3 Meeting Agenda and Preparation

The FMT PMO will schedule and conduct the virtual monthly progress meetings and will prepare and distribute meeting minutes to SAF/FM, the Deputy Assistant Secretaries, and members of the advisory board.

The FMT PMO will develop the agenda for each of the quarterly meetings, with input from the advisory board and SAF/FM. The FMT PMO will prepare materials and arrange for meeting support (facilitators, subject matter experts, etc.), as needed.



## Section 4 – Executing the Plan and Institutionalizing the Planning Process

As the FM community executes the Air Force Financial Management Strategic Plan (the Strategic Plan), FM leadership must maintain a constant view of where the Air Force is headed and identify changes necessary to remain a vital strategic partner in Air Force leadership. This requires that the Strategic Plan not be treated as a static document but be examined critically on a regular basis. This examination will ensure that the Strategic Plan is responsive to current guidance and direction from the Air Force and other stakeholders and remains relevant. By continually making these assessments, the advisory board can evaluate progress and use the annual update process of the Strategic Plan to document what has been observed throughout the year.

Each step in executing the Strategic Plan will reveal new opportunities to improve support to the Air Force and sharpen the skills critical to delivering decision support. As FM executes its strategy and transforms its role, its relevance will increase, opening many opportunities for synergy across key business and operational areas. The people in Financial Management are critical to the success of the FM strategy. With this understanding, Financial Management professionals are encouraged to commit themselves to continually develop individually through training, self-study and developmental assignments as well as organizationally through appropriate alignment with strategic objectives and goals.



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## Appendices



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## Appendix A – Strategic Planning Guidance

### A.1 President's Management Agenda

The Air Force's financial management strategy efforts are informed by the vision in the President's Management Agenda (PMA), August 2001, the Administration's key document addressing government reform. At its highest level, the PMA declares that government should be citizen-centered, not bureaucracy-centered; results-oriented; and market-based, actively promoting innovation through competition.

In addition to these sweeping principles, the President's Management Agenda identifies five broad government-wide initiatives:

- Strategic management of human capital
- Competitive sourcing
- Improved financial performance
- Expanded electronic government
- Budget and performance integration

The Air Force Financial Management Strategic Plan is squarely focused on achieving the kind of improvements in performance cited in the President's Management Agenda. In assessing broad thematic areas for its strategies, combined with specific initiatives and transformation efforts, FM is closely aligning its efforts with the five PMA areas. For more information on the PMA, please visit the following web site:

<http://www.whitehouse.gov/omb/budget/fy2002/mgmt.pdf>

### A.2 Governing Authorities and Guidance

#### A.2.1 Requirement for a Financial Management Strategic Plan

The Air Force is required by law to have a Financial Management Strategic Plan. In accordance with 10 U.S.C. Part D, 8022C:

**"The Assistant Secretary shall maintain a five-year plan describing the activities the Department of the Air Force proposes to conduct over the next five fiscal years to improve financial management. Such plan shall be revised annually."**

The Air Force Financial Management Strategic Plan for FY03–08 meets this requirement and is the foundation for the ongoing strategic management process.

#### A.2.2 Congressional and Agency Authorities

Overall, the execution of the Strategic Plan will be governed and guided by a universe of requirements promulgated by the General Accounting Office (GAO), the Office of Management



and Budget (OMB), the Federal Accounting Standards Advisory Board (FASAB), the Air Force Audit Agency, the Defense Finance and Accounting Service (DFAS), and the Office of the Under Secretary of Defense (Comptroller), among other entities. These requirements include, but are not limited to:

- Public Law 101-576, Chief Financial Officers Act of 1990
- Public Law 103-62, Government Performance and Results Act of 1993
- Public Law 103-356, Government Management Reform Act of 1994
- Public Law 104-208, Federal Financial Management Improvement Act of 1996
- Joint Financial Management Improvement Program systems requirements
- Department of Defense Financial Management Regulation
- Various U.S. Treasury financial management regulations and titles

In its discussion of strategy and world-class financial management operations, the GAO emphasizes the need to focus on value-adding activities:

"The reforms laid out by the CFO Act and subsequent related legislation, when effectively implemented, will place the federal government on par with private sector corporations and state and local governments that have already made the necessary investment in financial management. While many agencies have made great strides toward generating more accurate and reliable annual financial statements, the process of preparing financial statements and subjecting them to independent audit is only the first step toward satisfying the requirements of the legislation. To reap the full benefits of financial reform, federal finance organizations must go beyond the audit opinion toward (1) establishing seamless systems and processes, (2) routinely generating reliable cost and performance information and analysis, (3) undertaking other value-added activities that support strategic decision-making and mission performance, and (4) building a finance team that supports the agency's mission and goals."

*[GAO Report Title: "Creating Value Through World-class Financial Management" – April 2001]*

The GAO has addressed the need for Department of Defense modernization of its financial operations:

"Effectively managing such a large and complex endeavor requires, among other things, a well-defined and enforced blueprint for operational and technological change, commonly referred to as an enterprise architecture. Such architecture provides a clear and comprehensive picture of an entity, whether it is an organization (e.g., Federal department, agency, or bureau) or a functional or mission area that cuts across more than one organization (e.g., financial management or combat identification). This picture consists of three integrated components: a snapshot of the enterprise's current operational and technological environment, a snapshot of its target environment, and a capital investment road map for transitioning from current to target environment."

*[GAO Report Title: "Architecture Needed to Guide Modernization of DoD's Financial Operations" – May 2001]*



These Department of Defense efforts to modernize business operations and rules and to develop an enterprise architecture have a direct and significant impact on Air Force Financial Management operations and technical infrastructure.

Similarly, the OMB has provided guidance and directives on many matters directly related to FM operations. Below are some key bulletins related to financial statements and audits:

- Policies for Federal Credit Programs and Non-Tax Receivables, OMB Circular A-129, revised 11 January 1993
- Financial Accounting Principles and Standards, OMB Circular A-134, 20 May 1993
- Management Accountability and Control, OMB Circular A-123, revised 21 June 1995
- Audit Requirements for Federal Financial Statements, OMB Bulletin 93-06, revised to adjust to FFMIA in Bulletin 98-04, 16 January 1998; revised as OMB Bulletin No. 98-08, 24 August 1998
- Form and Content of Agency Financial Statements, OMB Bulletins Nos. 93-02 (22 October 1992), 94-01 (13 November 1993), and 97-01 (24 October 1996), with technical amendments (20 November 1998)
- Financial Management Systems, OMB Circular A-127, Transmittal Memorandum #2, 10 June 1999
- Audit Requirements for Federal Financial Statements, OMB Bulletin 01-02, 16 October 2000
- Instructions on Budget Execution, OMB Circular A-34, Transmittal Memorandum #16, 03 November 2000

### A.3 Air Force Mission, Vision, and Values

Key guiding principles for the Air Force Financial Management Strategic Plan appear in the overarching Mission Statement, Vision Statement, and Strategic Plan of the Air Force. The Air Force Mission Statement is:

*“To defend the United States through control and exploitation of air and space.”*

The Air Force Vision Statement is:

*“Air Force people building the world’s most respected Air and Space Force . . . global power and reach for America.”*

The Air Force core values (and what they mean) are:

Integrity First – Integrity is a character trait. It is the willingness to do what is right, even when no one is looking. It is the “moral compass”—the inner voice; the voice of self-control; the basis for the trust imperative in today’s military.



Service Before Self – tells us that professional duties take precedence over personal desires.

Excellence In All We Do – directs us to develop a sustained passion for continuous improvement and innovation that will propel the Air Force into a long-term, upward spiral of accomplishment and performance.

An expansion to the Air Force's vision is contained in the Air Force Strategic Plan, which broadly outlines strategic and transformational goals. The vision sets forth the Service's core competencies and the command and control through which they are employed through innovation and adaptation in the face of the changing and emerging security environment. In January 2003, the Secretary of the Air Force defined the Air Force competencies as:

Developing Airmen

Technology-to-Warfighting

Integrating Operations



**Appendix B  
Financial Management Vision Statement  
16 April 2002**



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## MEMORANDUM FOR ALL FINANCIAL MANAGERS

## SUBJECT: A Vision for Financial Management Leadership and Strength

Our Air Force is in the midst of a profound, exciting, and critical transformation. Warfighters, acquirers, maintainers, trainers, and testers are coming together in new and unprecedented ways to ensure that when our people go in harm's way—5, 10, 15, 20+ years from now—they will have the training, equipment, and support they need to assure decisive victory.

Sound financial management is at the core of this transformation and in all successful organizations. My visits to bases worldwide convince me that you understand the need to improve financial management capabilities and services to keep pace with this dynamic change and that the time to take action is now. So during the term of my appointment, we will implement and institutionalize a vision for Financial Management that will make us the leadership's strategic partner for decision-making and make us the example others follow for delivering high quality, customer-focused services.

My goal in this memo is to lay out for you the general direction for change, motivate you to take action, and help coordinate the actions of many people (so you can figure out what to do without constantly checking with others). I challenge all of us to work together to make this vision a reality.

***Our Shared Vision: Strategic Partnership and High Quality, Customer-Focused Financial Services***

"This is an era of unlimited potential. What if today we were fully integrated with all of our space, manned, and unmanned platforms? What if they conversed? What if we didn't have to go through stovepipes and tribal representatives to get the information from one tribe to another? What if the machines had the opportunity to do this for us? We should be there today. We should be doing that today..."

General John Jumper, CSAF,  
March 16, 2002

Imagine an Air Force wing operating at peak effectiveness and efficiency...one where every dollar strikes the correct balance between supporting the mission, maintaining the infrastructure, and taking care of our people. Imagine a wing where the key leadership knows the true costs of its major processes and can make the proper trade-offs when confronted with unforeseen requirements. Imagine a wing where Air Force people can take care of all their pay requirements from their phone or computer without a trip to Finance, where status of vendor payments is transparent, and where connections with DFAS are seamless. In this wing, the comptroller is a key member of the senior staff and financial managers spend time analyzing options instead of working on complaints. Imagine an Air Force where all wings achieve this level of performance and where our consolidated financial statements are both auditable and meaningful. This is what the world will be like for the comptroller of the future and it is not a fantasy...in fact, it is right around the corner. With new focus on people, processes and technology, we can bring about the necessary transition.



"If strategic planning is the brain of any successful organization, and a talented workforce the heart, then superb financial management is the lifeblood of a dynamic, world-class enterprise. Whether our financial professionals are conducting essential accounting and budgeting tasks or broader, value-added management innovations, their efforts will enable the Air Force to achieve its transformational goals and remain the best managed entity in government."

Dr. James Roche  
SECAF, April, 2002

This vision is simple. We want our financial managers to be strategists—business partners, top advisors—to our Commanders with the single-minded purpose of serving the warfighter's needs. Air Force financial managers will be integral members of the Commander's team to *help leadership make the right strategic choices while making existing operations more effective and efficient*. Success in the first part will be measured by the accuracy and timeliness of financial information; success in the second part by quality of service, timeliness, and cost. The benefits will be seen in terms of improved Air Force management and decision-making processes, quality and timely information, quality of service, and less manual intensity in service delivery.

Becoming the Commander's strategic partner means going far beyond our traditional budget, accounting, and processing functions and calls us to "re-vector" the role of the comptroller or financial manager toward decision support and greater involvement in developing strategy. To do that we must:

Further develop our skills in finance and sound business practices and create an environment that attracts, retains, and rewards high-caliber individuals.

Be more efficient and effective in our fundamental tasks—better services at less cost.

Improve and expand our ability to provide innovative, insightful, and actionable financial analysis and decision support (in the early stages of the decision cycle) that will inform and speed Air Force transformation.

Reengineer or redesign our processes and "fix" our systems.

Over time, we will make significant improvements in decision-making that will maximize warfighting capability and positively alter the internal and external perception of financial managers. In this exciting future, financial managers will help shape the future of our Air Force. But make no mistake. We must earn our seat at this table. We will do that by providing agile and insightful analysis at every opportunity. We must be bold. We must be the people who tell leadership "how we can," not "why we can't."

### *How We Will Do It: People First*

Our people are the key to success. I have no doubt that you are up to the challenge and eager to get on with it.

The demographics of our work force, however, present us with a challenge and an opportunity. Our civilian workforce is aging. Over the next five years nearly half of that workforce becomes eligible to retire. The collective experience and wisdom of that huge group of professionals is invaluable and we must act now to capture it. (In other ways, we face comparable and formidable challenges in our uniformed ranks.)

As difficult as losing all this talent will be, it presents an opportunity we must not miss to refresh and rejuvenate ourselves. We must act now to create a work environment—including compensation, quality of life and work, diversity, rewards, incentives, and training—that will attract



the best financial people in the country, uniformed and civilian, to come work for us. I am convinced that the sense of satisfaction and accomplishment that come from meaningful, mission-oriented public service is one of our greatest recruiting assets. We must find a way to convey that powerful message.

Once we recruit the best, we must offer them a world-class work environment in which their ideas are valued, they are constantly trained, and their performance is rewarded not only with bonuses (as applicable) and other incentives, but also with increasing responsibility and authority. Training must be meaningful and go beyond teaching "our processes." We must train our managers to innovate, think, and lead. Individually, we must all become more informed, customer-focused leaders, managers, and analysts, by understanding the strategic and operational issues of the Air Force and the most difficult problems facing our warfighters and commanders. Finally, those of us with experience must become mentors.

### *How We Will Do It: Challenge Everything We Do*

The need to expand the financial management role beyond the traditional bounds in no way minimizes the importance of what we do now. The Air Force spends more than \$80 billion in public funds each year. We must never lose sight that it is our responsibility to ensure the funds are accounted for. However, we can—and indeed we must—meet that goal while expanding our capabilities and performing our more traditional work with improved quality, responsiveness, and efficiency.

Real change means making our processes more efficient. Any step in the process that does not add value must be eliminated. We will focus on our financial processes, but also serve as change agents in evaluating other processes within our commands. We must put aside parochial thinking (and encourage others to do the same), and accept real changes to "the way things were done before." We must leverage technology, particularly the Web, to improve the timeliness and accuracy of information to our customers and reduce the cost of doing what we must do.

Change also requires being open to new ideas and approaches to doing our business. I believe effective organizations value diversity and the power of new ideas. I will lead the way by seeking inputs from all levels of our organization and from industry. My goal is to create a process whereby creative ideas are encouraged, advanced, evaluated, and implemented.

"Just as we must transform America's military capability to meet changing threats, we must transform the way the Department of Defense works and what it works on. We must build a Department where each of the dedicated people can apply their immense talents to defend America—where they have the resources, information and freedom to perform. Our challenge is to transform not just the way we deter and defend, but the way we conduct our daily business."

Secretary Donald Rumsfeld  
SECDEF, Sep 10, 2001

Finally, we must be willing to take risks. I want an environment in which we can experiment and leaders have the authority to make informed decisions, confident that their seniors will provide support for their choices. Not everything we try will work. That's okay. We'll learn from the failures, too.

### *Why We Must Do This: Maintaining Relevance in the 21st Century*

Some may question the need to change; why we need to raise the urgency level. The short answer is that if we don't, we will become irrelevant. The challenge the Air Force faces over the coming years (e.g., to leverage advanced technologies, focus on capabilities-based Concepts of Operation, and harness innovative



organizational changes) will require much more sophisticated financial analysis and breadth of expertise than we are universally asked to provide or are capable of delivering even if asked. Indeed, (although exceptions exist) for a host of reasons (some institutional, cultural, and organizational), today we focus our energies on and consequently are increasingly defined by and limited to execution year and processing activities. If allowed to persist, I fear this will spiral and diminish or marginalize the strategic resource management capability we can bring to bear to help our Air Force develop and implement sound strategic choices to increase combat power.

Meanwhile, in industry, CFO organizations are meeting comparable challenges by leveraging technology and reengineering processes to drive change and provide more timely information directly to decision-makers—thus increasing their stock and relevancy within their companies. We will do the same.

To be sure, adopting relevant industry practices parallels the warfighting and business transformation initiatives of the Air Force and the Financial Management Modernization and Workforce Development initiatives of the Department of Defense. Specific change initiatives are coming into focus throughout the Air Force. Whether it is the warfighting community's Global Strike Task Force concept, or the acquisition community's Collaborative Spiral Development, or the personnel community's efforts to attract and retain skilled people, we must step forward and offer our help, expertise, and guidance. We must be ready and eager to enable change.

"We must promote a more entrepreneurial approach to developing military capabilities -- one that encourages people to be proactive, not reactive, and to behave less like bureaucrats and more like venture capitalists..."

Secretary Donald Rumsfeld SECDEF, January 2002

"We have to admit that we are in ruts. We are in stovepipes. We have been taught to think one way. We have been taught to defend our prerogatives... We've got to break out of that...We've got to be prepared to bust bureaucracies."

General John Jumper  
CSAF, March 16, 2002

These trends are clear. They point to an increasing need by the Air Force for value-added activities that support decision-making and strategy. That is the future—full of possibilities and opportunities; but we must first increase our ability to pursue them. It requires our financial analysis and expertise and service delivery to be as advanced as the weapons systems and warfighting concepts we support. We need to become less like accountants of an industrial age and more like consultants (or even *e-accountants*) for an information/knowledge age.

Will this be easy? Absolutely not. Will we succeed? We have no choice.

### *What I Want Us To Do We Must Work Together*

This vision began as an initial set of ideas that I shared with a coalition of senior leaders and advisors, in and out of FM, and many of you during my visits. I incorporated the feedback with large doses of thinking and dreaming to produce a direction for the future that is *desirable* (appeals to "customers" and our workforce and captures the mind and heart); *feasible* (realistic and attainable); *focused* (clear); *flexible* (allows initiative); and *conveyable* in five minutes or less (easy to communicate).

I invite each of you to join me in this vision of making our financial management community a more effective and relevant partner in helping the Air Force shape its future. Very soon, I will outline my specific priorities and goals and metrics in greater detail. They will form the framework for focused initiatives regarding our people, processes, and technology systems.



Through it all, we will remain grounded in the core values that have served us so well: integrity, service, and excellence. These tenets are a reservoir of strength we can tap while charting our new course.

"The Air Force was born from a new technology that transformed the world's concepts of warfare, and which resulted in sweeping organizational changes in the US Defense structure--most significantly in 1947. Our Air Force culture embraces constant change and transformation--airmen thrive on innovation and are proud that flexibility is a key arrow in our quiver."

Dr. James Roche  
SECAF, April 2002

Finally, know this. I have tremendous respect for your knowledge and experience. You are the ones who understand how things work on the ground; what works and what does not. In order to make this vision a reality, everyone in our community must work as a team. I will provide the vision, leadership, available resources, and topcover. You must provide your best, unvarnished advice on how to best accomplish parts of the vision. Then, when we decide on a course, you must follow through. Together we will develop a realistic plan, execute it, and then celebrate!

The Air Force, born of change, is relatively young. When we empower our people, they embrace change and exceed expectations. The overwhelming success of the Air Force is a testament to the dedication and talent of its people, including the financial management community. For more than 50 years, our financial managers have supported a growing, evolving Air Force and earned a reputation for professionalism, dedication, and experience. Now, another critical transformation is underway, with intense focus on agile, rapid response, analytical rigor, and strategic decision-making. The financial management community will be a full partner. Let's get started.

MICHAEL MONTELONGO  
Assistant Secretary of the Air Force  
(Financial Management and Comptroller)

*"Strategic partners recognized as the ultimate source for financial and management information; a world-class team providing high quality, customer-focused decision support and financial services"*



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## Appendix C – Balanced Scorecard Framework

### C.1 Air Force Financial Management Approach

The Air Force Financial Management Strategic Plan is designed using the Balanced Scorecard approach created by Robert Kaplan of Harvard Business School and David Norton in the early 1990s. The Balanced Scorecard provides a framework to describe and communicate strategy in a consistent and insightful way, makes strategy actionable and measurable, and provides a mechanism for managing the implementation of the strategy.

### C.2 Overview of Balanced Scorecard (BSC)

At the highest level, the Balanced Scorecard approach is a **framework** that helps organizations translate strategy into operational objectives that drive both behavior and performance. Strategy maps and Balanced Scorecards are the architectural cornerstones of this framework. Strategy maps depict the cause-and-effect interrelationships among the strategic objectives of an organization. The Balanced Scorecard facilitates the measurement of objectives that involve both tangible and intangible sources of value creation—financial, quality, customer, process, capabilities, people, and systems. Traditionally, organizations have focused strategic success on the quantitative and readily measurable results; however, more recently, organizations have recognized that value creation and success derive from qualitative and less tangible assets as well, such as intellectual assets, knowledge assets, and quality programs. The cause-and-effect linkages in the strategy maps describe the path by which improvements in the performance of intangible assets get translated into tangible mission, financial, or customer outcomes.

The Balanced Scorecard integrates a performance measurement system into a management system; when used for developing and executing strategy, the BSC approach provides the organizing framework for managing execution against strategies and initiatives.

### C.3 Balanced Scorecard Perspectives

The Balanced Scorecard uses four perspectives for evaluating value creation in an organization: Financial/Mission, Customer, Internal Processes, and Learning and Growth. Typically, the Financial/Mission and Customer perspectives are more tangible and measurable in financial and quantitative terms. A brief description of each perspective follows:

**Financial/Mission:** The strategy for mission and operational readiness and related risk viewed from the perspective of the stakeholder or commander. (Although financial measures provide accountability to shareholders in the private sector, an agency's mission is usually the equivalent proxy in the public sector.) The components of the financial or mission perspective are the key levers that drive financial or mission performance.

**Customer:** The strategy for creating value and differentiation from the perspective of the customer—the person whom the FM community serves. This perspective reflects the



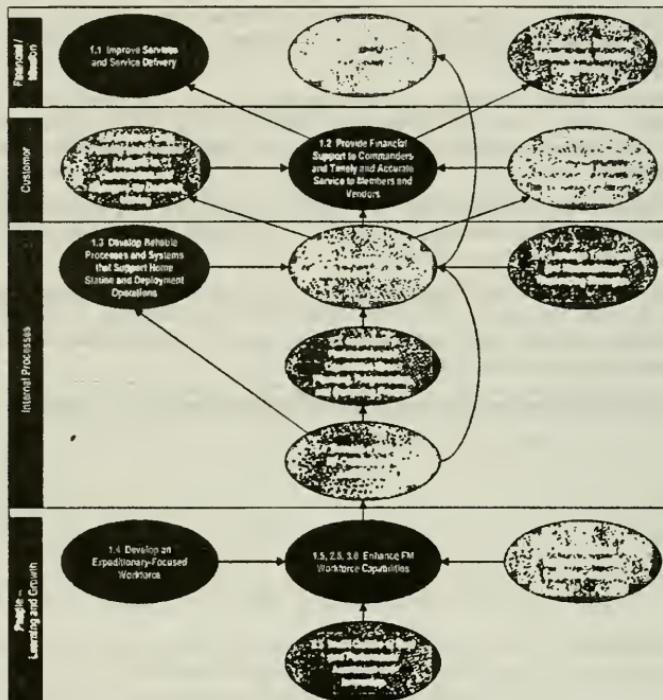
value proposition for target customers—who could be an airman with a pay issue, a MAJCOM dealing with O&M challenges, or a Program Manager in a major acquisition.

**Internal Processes:** The strategic priorities for various business processes and IT solutions, which create customer and shareholder satisfaction. This perspective reflects the value chain of the core business processes such as accounting, PPBES, or cost estimating.

**Learning and Growth:** The priority is to create a climate of learning and growth for members of the FM community. These are the critical enablers for performance improvement, change, and learning.

The perspectives represent the enabling elements of human capital development (People) and operational efficiencies (Internal Processes) that support customer requirements and demands (Customer) and result in achieving financial and mission imperatives (Financial and Mission). This is illustrated in the diagram below.

**Financial Management Strategy Map (with Cause and Effect Notation)**



#### C.4 Strategic Themes and Objectives

To communicate their strategies simply, many organizations segment them into **strategic themes** that can be considered the “pillars” for the strategy and array the strategic objectives into related areas for execution and measurement. Typically comprising several strategic objectives, themes organize them into management shorthand to highlight the few critical focus areas (or priorities) of the strategy.

In the Air Force Financial Management Strategic Plan, for example, the comprehensive themes are Warfighter Support, Strategic Resourcing and Cost Management, and Information Reliability and Integration.

At the next level, **strategic objectives** should describe what the organization must achieve to succeed in realizing its vision. Strategic objectives should be simply stated and made understandable by the members of the organization who will be responsible for leading the execution of plans supporting those objectives. In addition, and more broadly, members of the

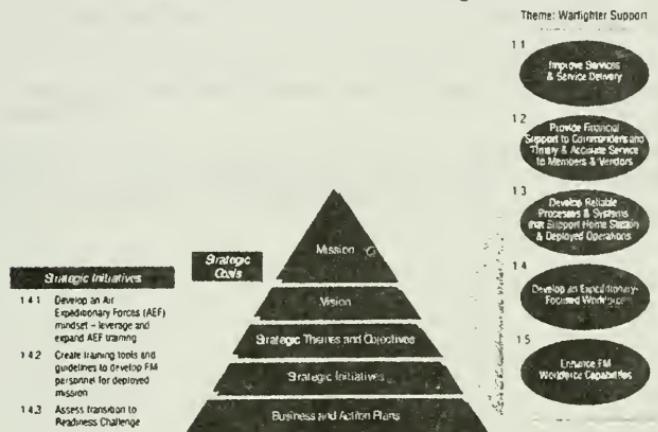


organization and those external to the organization who are actively participating in initiatives should clearly understand how their activities contribute to achieving strategic objectives.

Finally, to make strategic objectives actionable, organizations typically delineate objectives into smaller units or constructs called **strategic initiatives**. The initiative level serves to focus activities in concrete terms and refine measurements to manageable, quantifiable components. Business plans can be developed at either the strategic objective or initiative level.

In the Air Force Financial Management Strategic Plan, each strategic objective is decomposed to the initiative level.

### Essential Elements of the Strategic Plan



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## Appendix D – Details of Strategic Objectives, Measures, Targets and Initiatives

The Balanced Scorecard matrices in Section 2 summarized the strategic objectives, measures, targets and initiatives. The following tables provide additional details regarding strategic objectives, associated measures and targets for those objectives, and specific initiatives for each strategic objective.

The following notation is used for objective measures and targets on the Balanced Scorecard matrices that follow:

Unless otherwise noted, Target (SO) uses FY03 as a baseline.

Measures are denoted using "M1", "M2", "M3" etc. for each strategic objective.

Targets are denoted using "T1", "T2", "T3", etc. for each strategic objective.

The numerical notations for measures and targets are aligned; that is the specific target for M1 is designated T1.

Targets denote achievement of the measure using Fiscal Years (FY). These FY notations reflect fiscal year ends. "TBD" (to be determined) designations contained in these Balanced Scorecard matrices will be updated during Q1 FY04.



## Theme 1: Warfighter Support

	Strategic Objectives	Measures	Targets	Initiatives
Financial / Mission	1.1. Improve services and service delivery. <i>Services and service delivery to the warfighter span the financial management requirements of the deployed and home-base warfighter.</i>	1.1.M1. Customer Satisfaction Survey Scores	1.1.T1. 80% Customer satisfaction w/in a year; 95% by FY05	1.1.1. Complete FMT 02-1: AF Customer Service Concept (Phase 1). This initiative includes "one-stop-shopping" customer service in a seamless integrated fashion, delivering service anytime, anywhere, by leveraging technology. Start: FY02 – End: FY03 Lead: PDAS (Pers Pay Council)
	<i>Traditional FM services, such as pay, travel, procurement processing as well as budget development and execution support, will be provided to the warfighter in an increasingly automated, digital manner. The aim is to "widen the aperture" and offer the most cost-effective services anytime (24/7) and anywhere for every airman in one place (one-stop shopping).</i> <i>New and Innovative FM services will be developed to help the warfighter leverage information and more effectively integrate financial insights into day-to-day activities.</i>	1.1.M2. Percentage of "first call" resolution	1.1.T2. 75% w/in 24 hours; 100% w/in 72 hours by FY05	1.1.2. Initiate FMT 02-1: AF Customer Service Concept (Phases 2+). Start: FY04 – Ongoing Lead: PDAS (Pers Pay Council)
Customer	1.2 Provide financial support to deployed commanders, timely and accurate service to deployed members, and payments to vendors in a deployed environment. <i>Financial support to commanders includes delivery of quality services related to pay, travel reimbursement, procurement, and logistics.</i>	1.2.M1. Fully qualified comptrollers available to support deployed locations	1.2.T1. 100% comptrollers qualified to support deployed locations by FY05.	1.2.1. Complete FMT 03-3: Combat Comptroller Concept (Phase 1). This initiative includes evaluating the role of FM at deployed locations and focusing on value-added tasks; evaluating services that can be provided off-site; and enhancing training for deployed personnel. Start: FY03 – End: FY03 Lead: ACC/FM
				1.2.2. Initiate FMT 03-3: Combat Comptroller Concept (Phases 2+). Start: FY04 – Ongoing Lead: MAJCOM FM (TBD)



## Theme 1: Warfighter Support (continued)

Strategic Objective	Measure	Target	Initiatives
1.3. Develop reliable processes and systems that support home-station and deployed operations.  <i>Reliable processes and systems are a necessary prerequisite to improvements in support of the warfighter. Systems and processes are reliable when they are accurate, predictable, and meet functional and user requirements.</i>  <i>Reliability measures for systems may include networthiness, functional and user acceptance standards, and CFO Act compliance.</i>	1.3.M1. Reliability of financial systems	1.3.T1. 25% annual improvement from FY03 baseline reliability	1.3.1. Complete FMT 02-2: Vendor/Commercial Pay (Phase 1): Implement Wide Area Work Flow (WAWF) Start: FY02 – End: FY04 Lead: FMP (Commercial Pay Council)
	1.3.M2. Effectiveness of processes	1.3.T2. Effectiveness of processes as percentage of established FY03 baseline	1.3.2. Initiate FMT 02-2: Vendor/Commercial Pay (Phase 2+) Start: FY04 – End: FY07 Lead: FMP (Commercial Pay Council)
	1.3.M3. Reduced interest penalty payments	1.3.T3. 50% reduction (dollar value) by FY05; 75% reduction by FY07	1.3.3. Work with appropriate Program Managers and AF CIO to implement various travel and order writer systems. Start: FY02 – End: FY06 Lead: FMPT
	1.3.M4. Reduction in lost discounts	1.3.T4. 50% reduction (dollar value) by FY05; 75% reduction by FY07	1.3.4. Capture and incorporate lessons learned from deployed operations. Start: Ongoing – End: Ongoing Lead: FMPW



## Theme 1: Warfighter Support (continued)

Strategic Objectives	Measures	Targets	Initiatives
<p><b>1.4. Develop an expeditionary- focused workforce.</b> <i>Be ready to deploy or support those who are deployed.</i></p> <p><b>1.5 Enhance FM workforce capabilities.</b> <i>Encompasses all elements needed for a superior workforce that will provide the desired decision support for the AF.</i> <i>Much of the work envisioned in support of this strategic objective is set forth in the FM Workforce Management Strategic Plan.</i></p>	1.4.M1. Percentage of FM personnel available to deploy per SORTS designation	1.4.T1. 70% by FY04; 85% by FY05; 100% by FY06	1.4.1. Develop an Air Expeditionary Forces (AEF) mindset – leverage and expand AEF training. Start: FY01 – Ongoing Lead: SAF/FMPW
	1.4.M2. Percentage of eligible pool graduating from Silver Flag	1.4.T2. Enlisted target: 100%; officer target: TBD	1.4.2. Create training tools and guidelines to prepare FM personnel for deployed mission. Start: FY03 – End: FY04 Lead: SAF/FMPW
	1.4.M3. Percentage of deployed FM personnel that completed pre-deployment training (Comptroller Contingency Familiarization Training)	1.4.T3. 15% increase annually from FY03 to FY05	1.4.3. Assess and plan transition to Readiness Challenge. Start: FY04 – End: FY06 Lead: SAF/FMPW
	1.4.M4. Validate percentage trained, as reported in ARTS	1.4.T4. Validation > 96% by FY05	
	1.4.M5. Number returned personnel from AOR as "not capable"	1.4.T5. Not capable < 2% by FY05	
<p><b>1.5 Enhance FM workforce capabilities.</b> <i>Encompasses all elements needed for a superior workforce that will provide the desired decision support for the AF.</i> <i>Much of the work envisioned in support of this strategic objective is set forth in the FM Workforce Management Strategic Plan.</i></p>	1.5.M1. Percentage of FM workforce trained in decision support	1.5.T1. 50% by FY06; 75% by FY08	1.5.1. Complete TDD 02-2: Establish SAF/FM HR office. Start FY02 – End: FY03 Lead: SAF/FMP
	1.5.M2. Percentage of people meeting SAF/FM Professional Development Guidelines	1.5.T2. 20% by FY06; 50% by FY08	1.5.2. Develop and implement FM Workforce Management Strategic Plan. Start: FY03 – End: Ongoing Lead: SAF/FMPW



## Theme 2: Strategic Resourcing and Cost Management

Financial / Mission Customer	Strategic Objectives	Measures	Targets	Initiatives
	<p><b>2.1. Maximize resource effectiveness and increase cost efficiency.</b></p> <p><i>FM's will be able to deliver higher-valued services at lower costs on a timely basis by focusing on resource effectiveness, cost efficiencies, and reducing labor intensity.</i></p> <p><i>Effectiveness measures the value delivered to the customer. Efficiency measures output achieved per unit of resource (labor, \$, or time). Labor intensity measures overall workload and the number of manual interventions and people required to sustain a process, complete task, or deliver a service.</i></p>	<p>2.1.M1. Cost reduction in operations by a percentage of baseline year, with no mission degradation</p>	<p>2.1.T1. At least 10%-15% over FYDP</p>	<p>2.1.1. Complete FMT 03-1: Re-engineer O&amp;M Decision Support (Phase 1) Wing-level end-to-end review of resource management and development of computer-based tools to enhance decision support.</p> <p>Start: FY03 – End: FY03 Lead: AMC/FM</p>
	<p><b>2.2. Provide improved cost visibility and financial analysis for decision-making to commanders and managers.</b></p> <p><i>To become a strategic partner with other Air Force leaders, the FM community must present clear, reliable cost information and appropriate, understandable financial analysis to support them.</i></p>	<p>2.1.M2. Application of nontraditional sources to AF TOA</p> <p>2.2.M1. Availability of standardized cost data for each program (historic and current)</p> <p>2.2.M2. Use of earned value analysis (EVA) for all major weapon system programs</p>	<p>2.1.T2. Three new sources (at least \$1M each) by FY06</p> <p>2.2.T1. 75% by FY05; 100% by FY07</p> <p>2.2.T2. 75% by FY05; 100% by FY07</p>	<p>2.1.2. Initiate FMT 03-1: Reengineer O&amp;M Decision Support (Phases 2+).</p> <p>Start: FY04 – Ongoing Lead: MAJCOM FM (TBD)</p> <p>2.1.3. Develop and implement Expense Management Plan (Phase 1). Conduct value-added/non-value-added, cycle time, and root cause analysis of significant resource-consuming activities.</p> <p>Start: FY03 – End: FY04 Lead: AFMCF/PM</p> <p>2.2.1. Complete FMT 03-2: Reengineer Acquisition Decision Support (Phase 1); End-to-end review and reengineering of the acquisition cost process in support of Milestone Reviews, annual POM/Budget submissions, analysis of alternatives, source selections, etc.</p> <p>Start: FY03 – End: FY03 Lead: AFCAA/TD</p> <p>2.2.2. Initiate FMT 03-2: Reengineer Acquisition Decision Support (Phases 2+); Enhance the financial management capability for acquisition decision-based analysis that correctly balances warfighting requirements, available resources, and risk considerations.</p> <p>Start: FY04 – Ongoing Lead: MAJCOM FM (TBD)</p> <p>2.2.3. Expand cost modeling for use in new programs and budget development.</p> <p>Start: FY05 – End: FY07 Lead: SAF/FMB</p> <p>2.2.4. Define and implement a uniform confidence level for acquisition program cost estimates (AQ Eagle Look 6-3a).</p> <p>Start: FY04 – End: FY04 Lead: FMC</p>



## Theme 2: Strategic Resourcing and Cost Management (cont'd)

Strategic Objective	Measures	Targets	Initiatives
<p><b>2.3. Design and implement a performance- and capabilities-based planning, programming, and budgeting process.</b></p> <p><i>Linking planning, programming, and budgeting processes to capabilities will allow Air Force leaders to evaluate alternative strategies, sources, or systems with comprehensive understanding of tradeoffs and potential impact on the AF mission. The Government Performance and Results Act (GPRA) encourages this capability, and OMB Circular A-11 requires it.</i></p>	<p>2.3.M1. Percentage of programs and budget, expressed in performance or capability terms</p>	<p>2.3.T1. 20% for FY05 APOM; 100% by end FY08</p>	<p>2.3.1. Develop architecture and data structure that provide a common language (across AF and DoD) to help achieve information transparency.</p> <p>Start: FY04 – End: FY05 Lead: SAF/FMB</p>
	<p>2.3.M2. Implementation of performance-based budgets as percentage of TOA</p>	<p>2.3.T2. 60% by 2005; 100% by 2008</p>	<p>2.3.2. Redesign the resourcing process to ensure that strategy, performance, and metrics are integrated in programming, budgeting, and execution; performance should be measured against the strategic objectives established at the outset. The outcome is a performance-based or capabilities-based budget.</p> <p>Start: FY03 – Ongoing Lead: SAF/FMB</p>
	<p>2.3.M3. Creation/implementation of performance measures by percentage of TOA</p>	<p>2.3.T3. 60% by 2005; 100% by 2008</p>	<p>2.3.3. Implement additional activity-based costing/management (ABC/M) projects AF-wide, as appropriate.</p> <p>Start: FY03 – Ongoing Lead: SAF/FMC</p> <p>2.3.4. Revise (based upon the results of work on other Eagle Look recommendation (6-2a)) Air Force planning, programming, and budgeting practices (e.g., assessments) to maximize stability of acquisition funds (AQ Eagle Look 6-2b).</p> <p>Start: FY04 – End: FY04 Lead: FMBIP</p> <p>2.3.5. Implement changes [identified as a result of the work done for Eagle Look 10-4a] that will better support evolutionary acquisition and spiral development (AQ Eagle Look 10-4b).</p> <p>Start: FY04 – End: FY04 Lead: FMBIP</p>



## Theme 2: Strategic Resourcing and Cost Management (cont'd)

Internal Processes	Strategic Objective	Measures	Targets	Initiatives
	<p><b>2.4 Leverage traditional and nontraditional resourcing strategies.</b></p> <p><i>Provide a strategy and the capabilities to assess and adopt nontraditional resourcing strategies (such as leasing, public/private partnerships) to augment the traditional resourcing through the AF Total Obligation Authority.</i></p>	2.4.M1. Dollars of private-sector funds invested in AF activities	2.4.T1. \$1B/year, starting FY06 v. FY03 baseline	<p>2.4.1. Leverage private sector and other resources to generate investment-type funding.</p> <p>Start: FY04 – End: FY06 Lead: SAF/FMB</p>
	<p><b>2.5. Instill culture of cost and performance awareness and of innovation.</b></p> <p><i>Identify core methods and standard tools for costing analysis, performance-based management, activity-based costing/management, and process and financial analysis. Integrate Six Sigma and other standard industry protocols, as appropriate, into FM toolkit. Train and deploy FM community across AF to assist commanders, warfighters, and other customers.</i></p>	2.5.M1. Number of FM people trained in cost and performance management	2.5.T1. 100% by end FY07	<p>2.5.1. Raise awareness of the value of performance-based budgeting.</p> <p>Start: FY03 – End: FY05 Lead: SAF/FMB</p>
		2.5.M2. Number of Functionals trained in cost and performance	2.5.T2. 100% by end FY07 (for selected professionals)	<p>2.5.2. Adapt and adopt expertise and capabilities from private-sector financial management leading practices.</p> <p>Start: FY03 – Ongoing Lead: SAF/FMB</p>
		2.5.M3. Percentage of FM community as members or leaders of Communities of Practice	2.5.T3. 25% FM community participation in FY04; 50% in FY05; 90% in FY06	<p>2.5.3. Provide training in cost/benefit analysis, EVA, and other financial techniques (e.g., business case analysis).</p> <p>Start: FY04 – End: FY08 Lead: SAF/FMPW</p>
				<p>2.5.4. Develop standardized decision support toolkit for HQ/Base/Wing levels of FM operations.</p> <p>Start: FY04 – End: FY04 Lead: SAF/FMC</p>
				<p>2.5.5. Expand awareness of applications of cost modeling for use in new programs and budget development.</p> <p>Start: FY05 – End: FY07 Lead: SAF/FMB</p>



### Theme 3: Information Reliability and Integration

Financial / Mission	Strategic Objectives	Measures	Targets	Initiatives
	<p>3.1 Achieve an unqualified audit opinion.</p> <p><i>A clean audit opinion is an indicator that financial processes and systems can produce reliable and relevant financial and management information.</i></p> <p><i>The Chief Financial Officers Act of 1990 (CFO Act) and the Government Management and Reform Act of 1994 (GMRA) established requirements for:</i></p> <p><i>Audited financial statements for agencies (e.g., DOD/AF) and revolving fund activities</i></p> <p><i>IG audits of annual agency financial reports</i></p>	<p>3.1.M1. Percentage of critical feeder systems deemed to be substantially compliant</p> <p>3.1.M2. Percentage of critical feeder systems interfaced with the DFAS-DE accounting systems (GFAS-R, COTS, etc.)</p> <p>3.1.M3. Percentage of General Fund Financial Statement lines ready for internal AFAA review</p> <p>3.1.M4. Percentage of Working Capital Financial Statement lines ready for internal AFAA review</p> <p>3.1.M5. Percentage of General Fund Principal Statements (5) ready for external audit</p> <p>3.1.M6. Percentage of Working Capital Principal Statements (5) ready for external audit</p> <p>3.1.M7. Percentage of AF CFO Reporting Entity Financial Statements [taken as a whole (2)] receive an opinion</p>	<p>3.1.T1. TBD</p> <p>3.1.T2. TBD</p> <p>3.1.T3. TBD</p> <p>3.1.T4. TBD</p> <p>3.1.T5. TBD</p> <p>3.1.T6. TBD</p> <p>3.1.T7. TBD</p>	<p>3.1.1. Develop and execute a detailed and comprehensive CFO compliance action plan (to be called the Information Reliability and Integration Action Plan) to achieve clean opinion, including governance process and structure:</p> <p>Balance Sheet (or Statement of Financial Position); Statement of Net Cost; Statement of Changes in Net Position; Statement of Budgetary Resources; Statement of Financing</p> <p>Start: FY03 – End: Ongoing Lead: SAF/FMP</p>



### Theme 3: Information Reliability and Integration (continued)

Strategic Objective	Measure	Target	Initiatives
<p><b>3.2 Provide integrated, relevant, and reliable management information.</b></p> <p><i>Financial information is <u>relevant</u> when it is timely and provides feedback on operations or helps predict future events of import. Information is <u>reliable</u> when it is accurate, verifiable, and free from bias.</i></p>	<p>3.2.M1. Number of primary and feeder systems required to support financial reporting</p>	<p>3.2.T1. Reduce, consolidate, or integrate 50% of systems by the end of FY04; 100% by end FY08</p>	<p>3.2.1. Complete TDD 02-1: Establish SAF/FM IT office. Start: FY02 – End: FY03 Lead: SAF/FMT</p>
<p><i>To achieve a clean audit opinion, financial processes and systems should produce reliable information.</i></p>	<p>3.2.M2. Single source of real-time data</p>	<p>3.2.T2. Single source of real-time data by 2008</p>	<p>3.2.2. Complete TDD 03-1: Establish Automated Tools Forum. Promote sharing of locally developed automated financial management tools and assess potential of application of the tools across the AF at all levels. Start: FY03 – End: FY03 Lead: USAFE/FM</p>
<p><i>The annual financial statement process and audit cycle will be used as an opportunity to Improve financial management, financial systems, and processes.</i></p>	<p>3.2.M3. Percentage of transactions requiring manual interventions after initiation of transaction</p>	<p>3.2.T3. 10% reduction per year</p>	<p>3.2.3. Deploy processes and systems to achieve interim and intermediate capability with Wide Area Work Flow (WAWF) and FIRST. Start: FY03 – End: FY05 Lead: PDAS (Comm Pay Council)</p>
	<p>3.2.M4. Reduce total FM operating costs by employing leading-edge technologies</p>	<p>3.2.T4. 10% per year</p>	<p>3.2.4. Stand up robust financial support organizations at major Product/Logistics Centers. Start: FY03 – End: FY05 Lead: AFMC/FM</p> <p>3.2.5. Develop partnerships and agreements with functionals to develop collaboratively integrated functional and financial systems that support Air Force decision-making and accountability; use FMandA IPT to govern, track, and enforce. Start: FY04 – End: FY07 Lead: SAF/FMPT</p>



### Theme 3: Information Reliability and Integration (continued)

Strategic Objectives	Measures	Targets	Initiatives
<p><b>3.3. Improve Internal controls and processes.</b> <i>Build control activities into financial and nonfinancial processes. This supports the integration of nonfinancial managers into operational activities and related internal controls.</i></p> <p>Internal Processes</p>	<p>3.3.M1. Number of documented uncorrected material weaknesses</p> <p>3.2.M2. Number of core processes mapped, reengineered, and standardized</p>	<p>3.3.T1. Achieve zero documented uncorrected material weaknesses by FY07</p> <p>3.2.T2. 100% by FY04</p>	<p>3.3.1. Complete TDD 03-2: End-to-End Governance Review (Phase 1). Conduct an end-to-end governance review of policy, reporting requirements, funding thresholds, internal constraints, and other limitations levied on the FM community at the Headquarters, MAJCOMs, and Wing levels. Start: FY03 – End: FY03 Lead: PACAF/FM</p> <p>3.3.2. Initiate TDD 03-2: End-to-End Governance Review (Phases 2+) Start: FY04 – Ongoing Lead: MAJCOM FM (TBD)</p> <p>3.3.3. Complete FMT 03-4: Reengineer AF/DFAS Relationship (Phase 1). Evaluate all handoffs between AF and DFAS, reengineer processes, and determine optimal role for each throughout all stages of accounting and disbursing. Start: FY03 – End: FY03 Lead: AETC/FM</p> <p>3.3.4. Initiate FMT 03-4: Reengineer AF/DFAS Relationship (Phases 2+) Start: FY04 – Ongoing Lead: MAJCOM FM (TBD)</p> <p>3.3.5. Complete Core Competency Review. Start: FY04 – End: FY04 Lead: SAF/FMT</p> <p>3.3.6. Improve USAF Management Control Program (Federal Managers' Financial Integrity Act). Start: FY04 – End: FY05 Lead: SAF/FMP</p> <p>3.3.7. Revise Air Force funds management practices to maximize flexibility in management of acquisition funds (AQ Eagle Look 6-1b). Start: FY04 – End: FY04 Lead: FMBIP</p>



### Theme 3: Information Reliability and Integration (continued)

Strategic Objective	Measures	Targets	Initiatives
<p><b>3.4. Develop FM architecture consistent with AF enterprise architecture (EA) and DoD Business Management Systems Integration (BMSI) enterprise architecture.</b></p> <p><i>Establish compatibility and align with framework to develop and deploy the necessary technology systems and "tools" that will provide decision support, customer support, and accounting reports while being consistent with other DoD activities.</i></p>	3.4.M1. Number of legacy systems (not included in the final Enterprise Architecture) still in operation	3.4.T1. Achieve 100% reduction from baseline of unconnected and nonintegrated systems in operation by FY08	<p>3.4.1. Partner with AF CIO and develop AF/FM architecture; participate in OSD and AF BMSI projects.</p> <p>Start: FY03 – End: FY08 Lead: SAF/FMPT</p>
	3.4.M2. Number of key processes operating under the EA	3.4.T2. All key processes AF-wide by FY08	<p>3.4.2. Partner with DFAS to develop and deploy a COTS accounting system.</p> <p>Start: FY03 – End: FY07 Lead: SAF/FMPT</p>
	3.4.M3. Ready-to-serve reliability measures	3.4.T3. TBD	<p>3.4.3. Reengineer and standardize processes and systems (MicroBAS, COARS, CRIS, Resource Tracking System) to speed the collection of information and provide more time for analysis.</p> <p>Start: FY04 – Ongoing Lead: MAJCOM FM (TBD)</p>
<b>3.5. Create a culture that embraces decision support and analysis.</b>	<p><i>Establish the overarching vision and direction for the FM community and focus for workforce development.</i></p> <p><i>Embed the skills and capabilities to perform financial analysis and provide decision support. Build foundation for world-class customer service in analytics and decision support.</i></p> <p><i>Transition from emphasis on transaction processing to emphasis on decision support and analysis.</i></p>	3.5.M1. Improvement in survey of customers/ commanders re: FM culture	<p>3.5.1. Complete FMT 03-5: FM Knowledge Management Concept (Phase 1). Build a comprehensive knowledge management desk book tool for FM.</p> <p>Start: FY03 – End: FY03 Lead: AFCM/FM</p>
			<p>3.5.2. Initiate FMT 03-5: FM Knowledge Management Concept (Phases 2+). Expand FM KM functionality.</p> <p>Start: FY04 – Ongoing Lead: MAJCOM FM (TBD)</p>
			<p>3.5.3. Sustain TDD 03-3: Transformation Training. Develop concepts and training to support FM Transformation Initiative Task Forces.</p> <p>Start: FY03 – Ongoing Lead: SAF/FMT</p>
			<p>3.5.4. Work with SAF/AQ teams to develop a process to allow the Air Force corporate structure to prioritize Air Force acquisition programs. (AQ Eagle Look 4-3).</p> <p>Start: FY04 – End: FY04 Lead: FMBIP</p>
			<p>3.5.5. Redesign institutional educational/training curricula.</p> <p>Start: FY04 – End: FY05 Lead: FMPW</p>



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## Appendix E – List of Acronyms

- ABC/M.....Activity-Based Costing / Management  
AEF .....Air Expeditionary Forces  
AF .....Air Force  
AOR .....Area of Responsibility  
APCS.....Automated Purchase Card System  
APOM .....Amended Program Objective Memorandum  
ARTS .....Archival and Retrieval System  
ATM.....Automated Teller Machine  
BMMMP .....Business Management Modernization Program  
BMSI.....Business Management Systems Integration  
BSC.....Balanced Scorecard  
CARE.....Customer Automation and Reporting Environment  
CFO.....Chief Financial Officer  
CIO.....Chief Information Officer  
COARS .....Command On-Line Accounting and Reporting System  
COPs .....Communities of Practice  
CRIS.....Commander's Resource Integration System  
DFAS .....Defense Finance and Accounting Service  
DIMHRS .....Defense Integrated Military Human Resources System  
DoD.....Department of Defense  
DODEA.....Department of Defense Enterprise Architecture  
DTS .....Defense Travel System  
EA .....Enterprise Architecture  
EVA .....Earned Value Analysis  
EVM.....Earned Value Management  
FASAB.....Federal Accounting Standards Advisory Board  
FIRST.....Financial Information Resource SysTem  
FM.....Financial Management  
FM and A .....Financial Management and Accountability  
FMB .....Deputy Assistant Secretary, Budget  
FMC .....Deputy Assistant Secretary, Cost and Economics  
FMP .....Deputy Assistant Secretary, Financial Operations  
FMPW .....Workforce Management, Deputy Assistant Secretary, Financial Operations  
FMR .....Financial Management Regulations  
FMT .....Financial Management Transformation



FY .....Fiscal Year  
GAO .....General Accounting Office  
GMRA .....Government Management and Results Act  
GPRA .....Government Performance and Results Act  
HQ .....Headquarters  
HR .....Human Resources  
IG .....Inspector General  
IMPAC .....International Merchant Purchase Authorization Card  
IPT .....Integrated Product Team, Integrated Process Team  
JFMIP .....Joint Financial Management Improvement Program  
MAJCOM .....Major Command  
MicroBAS .....Microcomputer Budget Automated System  
O&M .....Operations and Maintenance  
OMB .....Office of Management and Budget  
PMA .....President's Management Agenda  
PMO .....Program Management Office  
POM .....Program Objective Memorandum  
PPBES .....Planning, Programming and Budget Execution System  
RA .....Resource Advisor  
RTS .....Reserve Travel System, Resource Tracking System  
ROW .....Reserve Order Writer system  
SAF/FM .....Assistant Secretary of the Air Force, Financial Management and Comptroller  
TBD .....To be determined  
TDD .....Transformation Direct Deposit  
TOA .....Total Obligating Authority  
USAF .....United States Air Force  
USC .....United States Code  
WAWF .....Wide Area Work Flow  
XO .....Deputy Chief of Staff, Air and Space Operations

Senator ENSIGN. Thank you. Let me start. We mentioned 2007 for audits. Mr. Walker, you talked about how you didn't think that that was achievable, a realistic goal. You mentioned that a Chief Management Officer, Level II, be a term appointment with performance contracts, somebody with proven record in the private sector to come in. First of all, explain what you would include in a performance contract, such as measurable goals, as you would have in a private sector company. Imagine you were a new CEO before the board. Do you think if you said, "Well, I do not think I can get there by 2007," that would be acceptable as a new CEO coming in?

Mr. WALKER. I think it is important, Mr. Chairman, to be truthful with you. If I was in that position and I was speaking to the board of directors, I would be truthful with the board of directors. You need to have goals, no question about it. You want to have goals that are aggressive but realistic and attainable. If they are not aggressive, realistic, and attainable, they are not credible.

But what is more important, in addition to having goals, you have to have a comprehensive plan that has key milestones, that assigns responsibility and authority for achieving those key milestones, that also links institutional, unit, and individual performance measurement and reward systems for achieving those key milestones. If you are successful, you are rewarded and if you are not you are held accountable. That does not exist.

Senator ENSIGN. Let me interrupt you right there. The reason that I asked the question the way that I asked—and Secretary Jonas, I want you to respond as well—is, the saying can be, when the standards are low, lower your standards. Just because the Department of Defense has been so pathetic at this over the years, do we say 2007, there is no way, even if we put the right reforms in place, that they could meet this—

Mr. WALKER. In my view, Mr. Chairman, it is not realistic to expect that the Department of Defense, with all the work that needs to be done—as Under Secretary Jonas said, they have dealt with two material control weaknesses but have 11 left. Yes, six entities now have opinions, clean opinions, up from three, but none of the major Services have yet to withstand an audit to get any type of opinion yet.

So, being realistic—and by the way, I am a Certified Public Accountant (CPA) and I have had responsibility for auditing major entities in the private sector as well as being the audit partner on the consolidated financial statements of the U.S. Government. It is just not realistic to do it.

On the other hand, it is very realistic to set specific goals and to have a plan that will achieve certain key factors, whether it be opinions on certain entities, whether it be work on specific line items, and to be able to demonstrate to this Congress and to the taxpayers that real meaningful and sustainable progress is being achieved, working towards getting a clean opinion on the consolidated financial statements of the DOD within a reasonable time frame.

Senator ENSIGN. What is that reasonable time frame in your opinion?

Mr. WALKER. I cannot give you a date right now, Mr. Chairman, because without the plan I cannot give you an opinion on that. But coming back real quickly to what you had asked for, the reason this position is necessary is because realistically the Deputy Secretary of Defense has a full-time job without having to focus on business transformation. The business transformation challenges that we have are so critically important, and they are so interrelated, and they are so challenging that it is going to take the sustained attention of a top level executive for at least, I believe, 5 to 7 years, at least 5 to 7 years.

Now, personally, I believe that it is important that they move quickly without the legislation to identify a person and put them in place. But I believe it is in the interest of the DOD and the country to institutionalize this position, because these challenges are going to continue and the stakes here are very high.

Senator ENSIGN. This person would be somebody who, regardless of—it would not be a political—it would be a political appointee, but it would cross regardless of who the administration was? In other words, this term would not expire at the end of an administration's term?

Mr. WALKER. That is correct. The idea would be, Mr. Chairman, that you are not talking about a policymaker. You are talking about an operational executive, and therefore—

Senator ENSIGN. Not somebody who is a dove or a hawk—

Mr. WALKER. No.

Senator ENSIGN.—or pro or anti—

Mr. WALKER. Correct. Let us face it, with the type of person you are talking about, if they do not get along with the Secretary they are not going to stay. I mean, you are talking about people that would do this because they want to do something for their country, not because they want to do this for the money.

They would want to do it for the challenge, and it would be a major challenge. Those type of people, you are not going to have to worry about those issues, I do not believe.

Senator ENSIGN. Secretary Jonas?

Secretary JONAS. I do agree with David on many of his points, particularly regarding the progress that I think we can make. I have been back in the Department for just a few months, but when I came back I took a look at it and I asked the staff to brief me on the program. What became clear to me is there are certain financial line items and material weaknesses that result from a process problem and there are—for example, our environmental liabilities line is one area that I think we can make very substantial progress and hope to this year.

Part of that is related to our estimating techniques, so I think we could make good progress there. But there are other line items that we will not be able to make progress on without systems improvement. I agree that it may take longer. I was not in the Department that set the 2007 date and at this moment I cannot say that we could not do that. But I do know from what I have seen that we have much work to do, and I do need a little bit more time to understand what I think is feasible.

But I do think that they have made substantial progress, and I think taking apart the problem and attacking each problem one by

one—for example, the financial line items—is a more feasible approach to this. I think it would allow us to demonstrate to Congress more of the work that actually is getting done. It is a big job to get a clean audit on the Department's statement, and I know we are the last—the biggest Department outstanding on a financial statement. There is nothing more that I would love than to be able to deliver a clean statement.

But I do agree with what David has said. We need sustained leadership on it. I have spent a fair amount of my time so far on it. I know that other under secretaries and assistant secretaries are attacking the problem with me. I have spent time with the Secretary on this, particularly with respect to implementation of management information systems, which again crosses many lines, not just the financial area.

But I do agree with many of the things that David has said.

Senator ENSIGN. Secretaries Jonas and Baldwin, if you could maybe address then, when you talked about looking at pieces, can you address the pay problems with the Reserve and the Guard I talked about? I am sure you know that this is a fundamental problem. GAO still reports that these problems are continuing. I forget the numbers; of the 900 and some that they interviewed, 700 had pay problems.

This is something that we addressed 6 months ago and it does not seem to be fixed. It is a fundamental problem. Let me ask first, how are you addressing it and when will this problem be fixed?

Secretary JONAS. Certainly, I would be glad to start, and then if Secretary Baldwin wants to continue. There were 829 Reserve component soldiers identified in GAO's report, 481 Guard and 348 Reserve. We have addressed those concerns. This is actually a great example to pick to illustrate the types of problems that we have had with management information systems across the board.

Let me tell you immediately what we have done. We are deploying a new system called the Forward Compatibility Pay System, which allows adjustments for allotments. What happens today is that a pay specialist spends about 2 hours at the current system that he has inputting manually adjustments when someone is put on active duty. That is pretty substantial in itself, but I am told that every month after that they have to go in and make sure, spend at least 30 minutes or so, checking to see that those things are still correct.

So our systems, which are Vietnam era systems, have not been useful to this. The Forward Compatibility Pay System is due to be on line in the spring, March I am told, and that should address many of those problems. The Hardship Duty Pay, for example, that is one aspect of our pay, I am told that this system when implemented will prevent 420,000 manual transactions. So this is just one particular system and it is going to make a big difference. But this is compounded across the Department, which is exactly why we need to press these issues.

**STATEMENT OF HON. VALERIE LYNN BALDWIN, ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT AND COMPTROLLER)**

Ms. BALDWIN. Senator, thanks for the opportunity to discuss this today. First of all, I want to assure you that pay is one of the biggest issues in the Department of the Army and it is at the highest level, sir. The Chief of Staff of the Army, the Vice Chief of Staff of the Army, the Sergeant Major of the Army, the Assistant Secretary of Manpower and Reserve Affairs, and myself, are working very closely on trying to resolve some of these problems, because, sir, you are absolutely right. Particularly in a time of war, but regardless, people deserve to get paid the proper amount and they deserve to get paid on time.

Ms. Jonas addressed some of the short-term solutions that we are putting into place, and one of the keys I think to understand is that finance is one component part of pay. Vital to proper pay is knowing what entitlements a soldier is supposed to receive. That is not part of the finance portfolio. That is actually part of the Manpower and Reserve Affairs portfolio, and our two systems do not talk to one another. We have our own particular system.

So from a finance perspective, we pay the soldier what they are supposed to receive based on the information that we have. If we do not know that they have been mobilized or if we do not know that they have actually gone from Kuwait into Iraq, we do not know what entitlements they should be receiving and as a consequence they continue to get paid at the amount that we are aware of.

So with forward compatible pay we are trying to deal with some of those issues, but until we actually have a long-term solution, which is coming in the form of the Defense Integrated Military Human Resources System (DIMHRS)—I think everybody knows it by the acronym more than its long title—until we actually get DIMHRS online, the pay and the personnel systems will not be linked and we will be doing manual work-arounds.

I will come back to DIMHRS. Another part of the short-term response for the Army is a very aggressive training program that we have put in place, where we actually have our finance people learning a whole lot more about what they need to be asking from soldiers as they go into country, so that we can try to get a handle on what entitlements they are supposed to be receiving.

Linking back up to DIMHRS, that is the long-term solution. At this point, sir, it is supposed to be online—this is a Defense-wide system—it is supposed to be online I believe in March 2005. What is very important for us until that time is to begin to understand how the pay and the personnel are linked. We calculate that there are roughly 136 personnel actions that directly affect pay and we need to understand how that system works so that we can integrate it with our system so they talk to one another.

If we can understand how all of these various actions impact pay and if we can begin to map for that in the systems that we have, then we are going to be in a very good position to link into DIMHRS. The Army has asked for DIMHRS to be—we asked to be the first organization to start using it because, sir, it is our biggest problem and we have to get a handle on it.

We are hoping against hope that the testing goes well so that we can link into it, but we have a responsibility from now until then to begin to understand our system.

Senator ENSIGN. Is DIMHRS a proprietary software?

Ms. BALDWIN. No, sir, I think part of it is a commercial off-the-shelf (COTS) system. I think PeopleSoft is what it is.

Mr. WALKER. It is almost all COTS.

Ms. BALDWIN. Yes, I think it is almost all commercial off-the-shelf.

What we need to do is make sure that our system, which is not a commercial off-the-shelf system, actually can talk, can be integrated into that PeopleSoft system. That is what we have to start working on right now.

Senator ENSIGN. Mr. Walker, the solutions that they talk about over the next—when we do this hearing 6 months from now—and after you respond I want to hear from both of them again. When we have this hearing 6 months from now, what do you foresee as the response to the question that I just asked? In other words, what kind of problems are we still going to end up with? Do you foresee that solutions—is it going to be 10 percent better, 50 percent better, 80, 90, 100 percent better? What is it?

Mr. WALKER. I cannot give you a percentage. I will tell you that as both of the Secretaries have mentioned, there are systems challenges and process challenges that exist that are not going to be fixed within 6 months. Therefore, 6 months from now I would expect that there are still going to be problems. I would expect that there would be some progress and there should be fewer problems on a relative basis, but there are still going to be problems.

This is an example of the need to have a clear plan with specific things that need to be done, specific milestones, responsibility and accountability, what can be done in the short term, and some things that are going to require more comprehensive longer-term solutions like the new information system.

Senator ENSIGN. Secretaries Jonas or Baldwin, are there specific goals in what you are doing for the short term and accountability if people are not meeting those goals? Is that put in place?

Ms. BALDWIN. I can answer from an Army perspective, but I think there is also—I think that Dr. Chu and Ms. Jonas are also working on this from the OSD side, because it is a defense system, not an Army system specifically.

Senator ENSIGN. I understand.

Ms. BALDWIN. But from an Army position, the acting Secretary of the Army, Les Brownlee, signed a memorandum which was distributed to the entire command and all of the secretariat, that established a pay personnel council. The primary reason that we established this council is so that my finance folks could sit down with Mr. Brown's personnel folks and understand every single transaction that we have to undertake and understand how people become eligible to receive their entitlements, and begin to—right now, sir, 31 percent of our pay comes in late and we do not know why.

We need to figure out what is not happening or what is happening, so that we can ameliorate those problems, if not eliminate them.

Senator ENSIGN. So you have no idea, then, how to set those time lines because you have not identified the full problem yet; is that what you are telling me?

Ms. BALDWIN. That is part of it. We need to really sit down and identify the problems. Senator, let me just explain too. These problems are at all levels. Oftentimes we do not know, we do not have visibility on entitlements because they happen down at the unit level. This might be somebody who is in Iraq, on the front line, and their commanding officer has just—maybe they have had to go into harm's way that particular day and they are entitled to a special—

Senator ENSIGN. Does this happen at the—do generals have problems with this?

Ms. BALDWIN. Sir, I do not think I will be revealing too much if I say that the Chief of Staff of the Army, when he came back on board, in fact had a pay problem.

Senator ENSIGN. Is this widespread amongst—

Ms. BALDWIN. I think it is for the actions, Senator, that we have not expected to this point. With Reserve pay the reason we have this problem is because we had a system in place that was designed for somebody who reported once a month and did their monthly exercise. We did not have a pay system or we did not have a personnel system that recognized that you could come back onto active duty, and as a consequence the Chief had problems.

So our systems are designed for a certain—in this case, for peacetime—and they were never designed to accept this kind of mobilization.

Senator ENSIGN. The reason I asked that was not to be overly dramatic. The reason I asked that, I would guess that if this was a common problem amongst generals that it would be fixed very quickly. It would not take nearly as long to fix it if it was a common problem amongst generals. I do not think that there is anybody that could reasonably disagree with that statement. They would make sure top-down that this thing was fixed.

Ms. BALDWIN. I can tell you, Senator, that the Vice Chief of Staff of the Army has looked me in the eye and said: Get it fixed.

Senator ENSIGN. Secretary Jonas?

Secretary JONAS. I would just add, David Chu is working this problem with respect to DIMHRS very hard. I have my eye very close on the forward compatibility pay. DIMHRS just as an example is a combination of two military payroll systems and 80 military personnel systems. So it gives you some idea of the complexity. The date is the second quarter of 2006 for the DIMHRS, and I think the Services are clamoring for the system.

Senator ENSIGN. Mr. Walker, do you think DIMHRS will fix these problems?

Mr. WALKER. It is too early to say, Mr. Chairman. I think one of the problems that the Defense Department has, quite frankly, is it has too many layers, too many players, too many systems. I mean, it is unbelievable. I do not know who designed some of the systems we are talking about, but there clearly was not an accountability mechanism for it. You could not sell it to anybody.

Senator ENSIGN. Where to begin on the next question. There are so many, and whatever questions that we do not get to today, I will

submit them for writing and to make sure that we get some answers, so that we can have good follow-up in what we do next spring, when we do the follow-up hearing.

Mr. WALKER. Mr. Chairman, I was just notified from one of my very capable executives that the Reserve component pay system problem was around in Operation Desert Storm, so it has been there for a number of years; and that DIMHRS is in direct response to some recommendations that we made. But as I said, it is too early to tell whether or not that is going to in and of itself be effective. But it clearly is a step in the right direction.

Senator ENSIGN. You said that the Reserve pay component thing was since Operation Desert Storm?

Mr. WALKER. That is correct, Mr. Chairman.

Senator ENSIGN. But, Ms. Baldwin, you said that we had the system set up for somebody who is not—I mean, if this is something that you have experienced before?

Ms. BALDWIN. Yes, sir, it has been experienced before. In Operation Desert Storm, obviously, we were not prepared then. We were still operating on the fact that we thought people would only report once a month. DIMHRS has been the solution that we have been talking about at the Department of Defense for a good long time.

We are keeping our fingers crossed that it actually comes together and can work. It has been a long time in coming and there is no question that this has been a long-term problem, absolutely.

Senator ENSIGN. Would either of the other Services like to respond? You are probably thankful that you are under the radar right now. [Laughter.]

But I would like to hear from you as far as the problems. You have made more progress, I understand, especially the Navy has made more progress on this. But maybe to just hear from your different perspectives?

**STATEMENT OF HON. RICHARD GRECO, JR., ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND CONTROLLER)**

Mr. GRECO. Sure, Mr. Chairman. Thank you very much. I appreciate also this opportunity to speak before you and the committee today.

Fortunately, with regard to pay, it has not been a problem for the Navy, nor the Marine Corps. The Department of the Navy of course has two Services, the Marine Corps and the Navy. The Marine Corps uses one system, called the Marine Corps Total Force System, which is an integrated pay and personnel system, much like DIMHRS will be. We also plan as well to use DIMHRS once it becomes available to use online. With regard to forward compatible pay, it is scheduled for Navy implementation in March 2006. Until DIMHRS becomes available, at least for the Marine Corps, they will stay with their program, which works very well actually.

Senator ENSIGN. Why do you think that? You obviously have Reserves. I mean, you have called up Reserves and it is working. You are not having significant pay problems. Would you agree with that, Mr. Walker, that they are not having the problems in the Navy and the Marines?

Mr. WALKER. That is my understanding. Let me say, the Marines have their act together, but in fairness, my son is a Marine Corps officer, so I want to disclose that. [Laughter.]

Ms. BALDWIN. Senator, I also think it is important to note that the Marines are all active duty. We do not have this problem in our active duty component. It is with the mobilization; our problem is with the Guard and the Reserve pay.

Senator ENSIGN. Did not the Marines mobilize reservists?

Mr. GRECO. Actually, sir, I am not certain if the Marines in this conflict have called up Reserves. However, I do know that there is a Reserve component.

Senator ENSIGN. We will find that out. I actually thought that they did as well.

Mr. GRECO. But I understand that, with regard to the Marine system, it is a single integrated system and there really are no significant—

Senator ENSIGN. Mr. Montelongo, would you like to comment on what the Air Force is doing?

**STATEMENT OF HON. MICHAEL MONTELONGO, ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)**

Mr. MONTELONGO. Gladly, Mr. Chairman. Let me just apologize for coming in just a tad late. I was passing in the hallway as I was going to the restroom and could not time it just right, so my apologies.

I might add that we also in the Air Force have a similar challenge in terms of integrating pay and personnel systems that my colleague in the Army has already stated. As she had already outlined, we took the same or a similar approach in meeting the challenge that was facing us, and particularly with our mobilized force, our mobilized reservists and guardsmen, by doing something similar to what she has already outlined. That is bringing together the different constituencies that are involved in the total pay process, if you will. She has already outlined that, in terms of bringing our personnel colleagues together as well as the actual payers. The payer in this instance is the Defense Finance and Accounting Service (DFAS), for all the Services, actually cuts the checks.

So there are primarily three constituencies that are involved in this process. Like Secretary Baldwin, we set up a Personnel and Pay Council where we bring these constituencies together and we work very hard on three areas. First, we integrate the people that are involved in this process, regardless of where the hand-offs and the intersection points are; second, we ensure our processes are as integrated as possible among those three constituencies; third, we make some of the near-term fixes in our personnel system as well as our pay system, so that we mitigate these kinds of pay problems.

I will tell you that, thankfully, because of that effort I will put it this way: while we still have some issues, we are managing those, and they are not at the alarm level.

Senator ENSIGN. By the way, Senator Collins' Military Legislative Assistant is a Marine reservist who is now serving in Fallujah

because of being called up. So I do not know how widespread it is, but we at least know one around here was called up.

For the Service Secretaries—are you aware of the legislation requiring review of your Service's business system investments before money is obligated?

Ms. BALDWIN. Yes, sir.

Mr. GRECO. Yes, we are.

Senator ENSIGN. What assurance can you give us that your Service will identify and report on business system investments to the designated approval authorities as required under the new legislation, and what steps will you take to ensure compliance?

Ms. BALDWIN. I guess as the senior Service I get to go first. Sir, I feel very confident that as far as our financial management systems we have a very good handle on the number that we have. We know what the system is. We in my domain, if you will, will be able to be very compliant. In terms of giving you assurances, I can tell you that I feel very confident about that.

One area in the Army that we are working on currently with our Chief Information Officer (CIO), also known as the G-6 in our parlance, is putting together a plan that creates domains, business domains, in the other functional areas of the Army. Once we are able to do that, those domains will then begin identifying their systems. They have really already begun to do this.

Senator ENSIGN. Give me an example.

Ms. BALDWIN. For example, with the logistics domain, they have a fairly good handle on their various systems and they know what they would like to move to. It is called the Logistics Management System.

Mr. WALKER. Modernization Program.

Ms. BALDWIN. The Logistics Modernization Program (LMP). Then also Global Combat Support System (GCSS)—Army, which is an inventory system at the installation that monitors what the folks need at the installation level.

Senator ENSIGN. Does it make sense for the Army—each one of you have all of your own little businesses, business systems. We have 4,000 of them. Does it make sense to maybe have some of the same ones across? There may be a few that are Service-specific, but as we have seen with all kinds of other weapons systems and various things, that it makes a lot more efficiency to do it across the Services. In other words, just like the pay thing, it seemed like the Navy had their act together maybe a little better and things are working fairly well. Does it seem to copy systems instead of reinventing the wheel?

Ms. BALDWIN. I think that depends on the business, sir. I mean, all of the Service components have different types of businesses that they operate. So there may be opportunities for us to utilize, basically to reap the benefit of somebody else's good experience. I know, for example, with the Department of Army, we are in the financial management world, we are planning to put together a general fund enterprise business system, and there is discussion that some of the other Service components, if we can get it deployed in a workable way and tested, might be interested in that.

Obviously, it makes sense potentially for us to look at civilian pay to see if we can have similar systems there, possibly with pro-

curement. But those are business domains that are outside my particular area, so it is awkward for me to tell you specifically whether or not I think that those systems can be shared across the Services.

But at least the civilian pay—we all pay our civilians exactly the same way.

Senator ENSIGN. I want Mr. Walker to comment, but I want to hear from the other Services first.

Mr. WALKER. Mr. Chairman, absolutely positively they ought to be pursuing opportunities to develop shared systems in certain functional areas across the Services. I am on the Joint Financial Management Improvement Program along with the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), as well as the Director of the Office of Personnel Management (OPM). We have an initiative underway right now to consolidate the number of payroll systems that are used by executive branch agencies.

I see no reason why there would not be an effort to do the same thing to the extent possible and appropriate within the Defense Department. Furthermore, I would say this is an example of where having a chief management officer can facilitate establishment of comprehensive and integrated enterprise-wide solutions. Right now you do not have that.

I would come back to what I said before, Mr. Chairman. Linking resources with responsibilities is very important. That is not done right now. Furthermore, while I think the recent legislation is a step in the right direction and it deals with new business investments, it does not deal with the billions of dollars that are spent every year on maintaining outmoded legacy systems that are not stay-in-business essential systems.

I mean, there are billions of dollars being spent on those 4,000-plus systems that are wants rather than needs, and they are taking vital resources that otherwise could be used to create a better future.

Ms. BALDWIN. May I speak to that? One of the key aspects of performance or portfolio management is identifying redundancies. We have taken some good steps in that regard. Each of the domains have portfolio management tools. As I described in my testimony, our repository of all these systems, we have enough detail that we need, including the resources associated with those systems.

So what the tool does is it tells you what you are spending in terms of what we call legacy systems. It identifies areas where there might be cost growth. In this particular graph that I looked at, it tells you if there is a 10-percent growth in a particular legacy system. What we have done and we are doing through this budget process is using our program planning process to make sure that we clamp down on that type of spending.

So I think we are completely in agreement here. We are not interested—the \$5.2 billion that is spent on business systems, we want to get at that excess systems spending. So that is why the architecture is important, that is why these tools are important, and again that is why we are looking forward in this budget to controlling certain types of investment.

Senator ENSIGN. Thank you.

Mr. GRECO. Thank you, Mr. Chairman. I have been in my job now for about 3 weeks and in that time I have had the chance to meet with all those who are involved in this whole process, and I have been very impressed with their commitment to the effort, to business modernization, and have learned a great deal from them.

Just to give you an idea of the scope of what has been done in terms of, for example, systems reduction, the Navy has gone from 67,000 different systems now to about 7,000 systems Department-wide. Just in the area of financial management, my area, we have gone from about 2,000 systems to 338 systems. So there has been significant reduction and significant commitment to this, and I think that will continue, especially because as we implement our enterprise resource planning programs they need to be in compliance with the BMMP and the enterprise architecture, which in theory, even if each of our Services implemented different programs such as enterprise resource planning, so long as they are compliant with the architecture they should work, and they basically are united in that way by being compliant with the overall Department of Defense effort at creating a system of rules which allow systems to talk to one another.

So that is something that I am committed to. That is something that I have seen over the last 3 weeks that my staff is committed to. So in answer to your question, how can we assure you, I do assure you that we will continue very seriously, as the past record has shown.

Senator ENSIGN. Secretary Montelongo.

Mr. MONTELONGO. Mr. Chairman, let me echo what my colleagues have already stated, and that is a commitment to in fact making sure that we do meet the requirements that are set out in the National Defense Authorization Act. Just like they have already stated, we also have a very comprehensive portfolio management process in place. It is headed by our CIO. We partner with the CIO to make sure that whenever we grade each system, particularly each business system that we have in the Department of the Air Force, that it does comply with standards as well as being business case relevant.

So on the one hand, it is an issue of standards and also looking at the economics. So we do that, not just as the Comptroller General is concerned about, in terms of the development of new systems, but also in terms of applying that same scrutiny and discipline to the sustainment of existing systems.

In the Air Force, for instance in terms of overall IT spending, we are probably at about 9 percent in fiscal year 2005—that we are executing right now in terms of the overall spending on business systems, which is down from about 11 percent or so that we had last year.

Then overall, our spending on business and combat support IT is roughly about half of what you would find in some of the comparable DOD agencies. So we feel that the success that we have had there is attributable to the discipline and the rigor that we have put in this portfolio management process. I am just about ready to send up a memorandum, notifying the Department of the Air Force that we are going to get very serious about this issue, to the point that we will be withholding funding if, once again, any

of the systems do not pass the scrutiny that I have just laid out in terms of being standards-compliant and also business case relevant.

Senator ENSIGN. Mr. Walker, maybe you can address the idea you talked about of a Chief Management Officer (CMO), this Level II person. First of all, just maybe a nodding of the head from the Services: do you agree that the comprehensive Business Enterprise Architecture is critical to this whole transformation that is taking place? Would you all be in agreement with that? No, yes?

Ms. BALDWIN. Yes.

Senator ENSIGN. Yes, I see. Let the record show they were all "yes" nods.

The question for you, Mr. Walker, is, without this Level II person with the expertise needed, evaluate how you think that what they are doing will work?

Mr. WALKER. First you have to have a plan, and they still need to work on developing a comprehensive and integrated plan for each of these key areas—BMMP, financial management, et cetera—with key milestones, assigning responsibility and authority. I would respectfully suggest, Mr. Chairman, if you are going to hold this hearing every 6 months, one of the things that if I were you I would want to know is what can I expect is going to be accomplished the next time we meet, such that you can ascertain whether or not in fact it has been accomplished, if you will, the next time that we meet.

Senator ENSIGN. That question will be submitted to each one of you in writing, because I do not expect you to be able to answer it here. But I want it for the record so that we will be able to review.

Mr. WALKER. So we need that plan. With respect to have a CMO, let me tell you why I think this individual is critical. The undertaking at the Department of Defense is unprecedented as to size, scope, and complexity. There are many different layers, players, and units that have to get involved. There are a number of under secretaries who have to be involved in achieving a solution here. The Service Secretaries and their key support also have to be involved.

I come back to what I said before: who is in charge? It is totally unrealistic in my opinion to expect the Deputy Secretary of Defense, with all that is going on in today's world, to expend the amount of time necessary to focus on this. I think it is unrealistic to expect that they will ever be able to spend the time necessary. Plus, the Deputy Secretary of Defense may or may not even have the type of management and operational executive background that makes it conducive towards that person doing this.

You have to have somebody who has the background, a proven track record, who is at the right level, who can make sure that they can hold the appropriate persons responsible and accountable for results, who is going to be there long enough to be able to demonstrate patience, persistence, perseverance, and experience pain before you prevail. That is going to take 5 to 7 years plus.

We are not set up for success without that.

Senator ENSIGN. Thank you.

I guess one final question that I would ask of you all is, because—this has maybe been a little rough being up there today, and I do not apologize for that, simply because I think it is important that we have this accountability, as I talked at the beginning. But I also want to hold us accountable for our jobs that we are doing up here.

So my question now is to you: how can we help you do this? It is okay if you do not want to respond on the record right now. If that is something you want to think about over the next week or 2 weeks and get back to us in writing, that would be fine. If you want to make a statement on the record right now, that would be fine as well.

But I think the suggestion—I have actually thought about this before, Mr. Walker, and I think that your suggestion on this Level II person, I want to think that through exactly how that would work. But it seems to, just on the surface, make a heck of a lot of common sense. But what else can we do to help you all? We all want the same goals. There is no question. You people are doing this because you are passionate about what you do and I appreciate your service to this country, and that is why I am doing my job here.

So how can we now help you?

Secretary JONAS. Mr. Chairman, first of all, I would like to thank you for the support that we have gotten from the committee. I have only, as I say, just been back a few months. But very grateful—we are very grateful for the help that you have provided in the legislation.

With respect to David's comment, if I just may say, I have spoken many times since I have been back to the Secretary on some of the issues we have. He is passionate about this. He understands that if we make improvements in the business area every single dollar we save in the business area goes into the warfighting mission, and that is absolutely where we all are.

But it does take a lot of hard work and hours that we are all committed to. We have several of the under secretaries involved, many assistant secretaries obviously here. What David has described is something regarding what we call horizontal integration, and that is a technical kind of a term, but really the problem is working across the Department. So while I would not be prepared to give the Department's position on what he suggested, I would say that the Deputy and the Secretary are extremely involved. If they had many more hours in the week—we have their attention, we have their full authority on this. They are very committed to it.

So I just wanted to extend our appreciation and our commitment on the part of the Department to work this through.

Senator ENSIGN. Yes, Mr. Walker?

Mr. WALKER. Mr. Chairman, let me also say that I sit as an observer on the Defense Business Board, which advises the Secretary and the Deputy Secretary, and I know they have recommended that this position be created and they unanimously feel that it is essential for success.

Second, let me also compliment you on asking the question that you did. I have testified many, many times before the Senate and

the House and I think you are to be commended for asking what do we need to do, because it is a two-way street, and it is going to take the combined efforts of Congress and the executive branch to solve this problem. There is no doubt about it.

Senator ENSIGN. Let us make sure that we come up with suggestions, since I asked the question. But like I said, do not feel pressure answering that question today. If you would like to, that is fine.

Secretary JONAS. Mr. Chairman, I may have a little bit more that I would like to say, but one thing that I think you can be extremely helpful to us with is something that I actually said in my statement, which is we need your help communicating the power of an integrated system to our uniformed and civilian leaders, because the information that can be extracted from an integrated system is vital to the warfighter and it is vital to the way they have to make business decisions.

If we can convey that power to them more effectively than we have, as opposed to just telling them: "this is a way we can get an auditable financial statement," then I think that we will have done our jobs.

Senator ENSIGN. Great suggestion.

Mr. GRECO. I also would like to thank you and the committee for your support that you have shown in this effort, which of course is extremely important, and your understanding of the challenges that we face and the complexity of the issues, and accept our commitment to addressing this with the seriousness that it deserves.

We would very much welcome to see continued support for the investments that we have made in this, as you have done in the past. I would be happy to provide more detail in writing to you. Thank you.

Senator ENSIGN. Thank you.

Mr. WALKER. I have one comment, Mr. Chairman, which I think is directly relevant to your question. After the Defense Department puts together its comprehensive and integrated plan and after it presents that plan and Congress and your key staff have an opportunity to review it and feel comfortable with it—and you may ask our comments on it, which we will be happy to provide that—there is no question in my mind there are a lot of people going to come up here and they are going to say, and it is primarily going to be from the Services: We like the status quo. Because, let us face it, whoever controls the people and whoever controls the dollars has the power.

So one of the things that is going to have to happen is, not only within the Department, but Congress is going to have to, once the plan is agreed to and once you feel comfortable with it, stick with it and make sure that the Department is in a position to be able to deliver on it, because there are strong cultural issues here and there is going to be a lot of resistance to giving up control of some of these things. But it is necessary for us to get to where we need to be.

Senator ENSIGN. Mr. Chairman of the full committee, we appreciate your coming by and showing your interest. Today we have had a very spirited conversation, and well worthwhile.

Senator WARNER. I judged that. Well worthwhile.

Senator ENSIGN. It has been really one of, I think, the best hearings that this subcommittee has ever had, and we have some great commitments from the Services and the DOD to move forward so that we are doing the best with the dollars that we provide them. We have some great suggestions on what we can do for them and what they can do for themselves.

So we look forward in 6 months from now, they are going to come up with exactly what we can expect from the progress, or at least estimates on what they think the progress they can make in the next 6 months, when we do the next hearing on this particular issue. As we are working forward together to try to help them maybe with some legislation that will even advance what we are trying to do here on using the dollars, improving the systems, making sure that there are not pay problems with the Guard and the Reserve, making sure that we know where our inventories are, how much we have, where tanks are, where planes are, where bullets are, the various things.

I think that, working together, we will not just transform our military from a Cold War to a modern fighting force in those regards, but we can also transform it into an efficient business systems type of a model where we are using the dollars efficiently.

Senator WARNER. That is certainly a goal that we must achieve.

Secretary Jonas, we welcome you. Is this your first appearance?

Secretary JONAS. Yes. The first one was my confirmation with you, sir.

Senator WARNER. That was hardly an appearance of this magnitude.

Secretary JONAS. It was a good opportunity, sir.

Senator WARNER. That is good. We congratulate you for your efforts.

Secretary JONAS. Mr. Chairman, I appreciate it.

Senator WARNER. Thank you, Mr. Chairman, for undertaking this.

Senator ENSIGN. Thank you.

Senator WARNER. The more work that he does, the less I have to do. [Laughter.]

Senator ENSIGN. The subcommittee will stand adjourned.

[Questions for the record with answers supplied follow:]

#### QUESTIONS SUBMITTED BY SENATOR JOHN ENSIGN

##### CHIEF MANAGEMENT OFFICIAL

1. Senator ENSIGN. Ms. Jonas, in your opinion, would the appointment of a Chief Management Officer (CMO) whose main focus would be on business transformation issues and who would be appointed for a term of 5-7 years, be needed for the Department to succeed in its transformation efforts?

Secretary JONAS. It is difficult to say whether a CMO focused on business transformation would be any more effective than the current operating structure within the Department. The CMO concept for DOD has been employed in the past with mixed results. I do believe, however, that simply appointing a new senior manager in the Department would not necessarily break down the institutional barriers that act to impede our transformation progress. While I respect the Comptroller General's perspective on this issue, I believe that the Secretary of Defense has appropriately delegated business transformation leadership to his Under Secretaries of Defense and the Secretaries of the military Services. Our challenge, as his designees, is to work collaboratively to achieve the Secretary's business transformation priorities without forcing the creation of an additional layer of management.

## FINANCIAL AUDIT OPINION

2. Senator ENSIGN. Mr. Walker, one objective of DOD's Business Management Modernization Program is to obtain an unqualified opinion on its fiscal year 2007 financial statement. Do you believe that the DOD has a realistic, comprehensive, integrated plan with appropriate accountability mechanisms in place to achieve its goal of a clean audit opinion in fiscal year 2007?

Mr. WALKER. No, consistent with our report of September 2004,<sup>1</sup> DOD's goal to obtain an unqualified audit opinion on its fiscal year 2007 consolidated financial statements is still not supported by a comprehensive and integrated plan. Although most of the DOD components, including the Army, Navy, and Air Force, had submitted improvement plans to the DOD Comptroller, we reported that DOD had not yet developed an integrated departmental strategy, key milestones, accountability mechanisms, or departmental cost estimates for achieving its fiscal year 2007 audit opinion goal. In our opinion, the Department is not yet in the position to obtain a clean opinion on its financial statements by 2007. In fact, the Army recently informed DOD's Comptroller that the Army would not achieve an unqualified audit opinion before fiscal year 2010.

3. Senator ENSIGN. Ms. Jonas, realizing that an audible financial statement is not the goal in and of itself, but rather that unauditible, unreliable data is merely symptomatic of poor oversight and accountability, will the 2007 audit be a productive use of limited funds?

Secretary JONAS. Performing extensive audit procedures on financial statements that are not ready for audit would not be a productive use of limited funds. In addition, section 1008 of the National Defense Authorization Act for Fiscal Year 2002 specifically requires that the Inspector General minimize the use of audit resources when management represents the statements as unreliable. The Department has developed rigorous business rules to ensure that statements are reliable before representing to the Inspector General that the statements are ready for audit. We will only ask the Inspector General to audit statements that are deemed ready for audit as demonstrated by compliance with the business rules. If all of our financial statements are not ready for audit in fiscal year 2007, we will not request that the Inspector General audit them. Our prudent approach ensures that we properly prioritize efforts and comply with the law.

## SYSTEM INVESTMENT REVIEWS (\$1 MILLION REVIEW)

4. Senator ENSIGN. Ms. Jonas, Congress recently passed a law (the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005) reinforcing existing statutes that require all business system modernization investments totaling over \$1 million be reviewed and approved for consistency with the Business Enterprise Architecture. Has DOD established a process that will enable it to identify and certify all systems that meet the \$1 million threshold prior to funding as required by the 2005 Authorization Act? If yes, please describe this process and the effective date.

Secretary JONAS. Yes. The Department had previously established a systems review and certification process, in accordance with existing statutes, as defined in recent Defense Appropriations Acts, for business systems modernization investments. The process begins with the system owner filling out a detailed questionnaire, which is composed of a standard set of questions and additional domain specific questions. This information, and its supporting documentation, is reviewed by the business domain subject matter experts, Assistant Secretary of Defense (Networks and Information Integration) (ASD(NII))/CIO experts on net-centric design against the existing Business Enterprise Architecture and Business Transformation objectives, and the cognizant financial authority to validate the economic analysis. The BMMP Program Office (BMSI) performs a final check to assure that all stakeholders have completed their reviews. If acceptable to all stakeholders, the package is sent to the comptroller recommending certification. Noncompliant systems are returned to the system owner for issue resolution. The Department used this process to review and certify systems in fiscal year 2004 and fiscal year 2005.

Additionally, in October 2004, the DOD CIO issued guidance requiring DOD components to enter into a central database all business systems with planned expenditures of \$1 million or more in any year of the Future Years Defense Plan. This

<sup>1</sup> GAO, Financial Management: Further Actions Are Needed to Establish Framework to Guide Audit Opinion and Business Management Improvement Efforts at DOD, GAO-04-910R (Washington, DC: Sept. 20, 2004).

month (January), the database will be populated with detailed data from the DOD components. This database will allow the Department to more accurately identify systems that meet the threshold for review and therefore enable improved scheduling of future system reviews and approvals.

According to the NDAA for Fiscal Year 2005, the process for certifying systems is the responsibility of the approval authorities—Under Secretary of Defense (Acquisition, Technology, and Logistics) (USD(AT&L)), Under Secretary of Defense (Comptroller) (USD(C)), Under Secretary of Defense (Personnel) (USD(P&R)), and ASD(NII)—and must be defined and in place by March 2005. DOD is currently working to ensure that all the approval authorities will have their Investment Review Boards in place by that time, and use a standardized process and set of criteria.

5. Senator ENSIGN. Ms. Baldwin, Mr. Greco, and Mr. Montelongo, are you aware of the legislation requiring review of your Service's business system investments before money is obligated?

Ms. BALDWIN. Yes, I am aware of this requirement. The analysis and categorization of our financial systems will be completed in the next 6 months. We will use the information from this analysis, and work with our CIO, to ensure compliance with this requirement. The Army has, through several communications vehicles, disseminated information to the field regarding this requirement. The Army CIO in coordination with the Assistant Secretary of the Army (Financial Management and Comptroller) has implemented procedures to expedite Army's review of business IT investments prior to submission for OSD certification.

Mr. GRECO. Yes, I am aware of the legislative requirement. My staff is working with the Department of the Navy CIO to put procedures in place to ensure compliance.

Mr. MONTELONGO. Senator Ensign, the Air Force is fully aware of the legislation requiring review of business system investments before money is obligated. The Air Force took the necessary steps adhering to the 2004 legislation requiring approval of investments exceeding \$1 million in business systems. The Air Force also understands that investments in excess of \$1 million, without prior certification/approval, will result in an Anti-Deficiency Act Violation effective 1 October 2005.

6. Senator ENSIGN. Ms. Baldwin, Mr. Greco, and Mr. Montelongo, what assurance can you give us that your Service will identify and report all business system investments to the designated approval authorities as required under the new legislation and what step will you take to ensure compliance?

Ms. BALDWIN. In order to ensure compliance, the Army is establishing business processes to identify and report all IT business system investments through the appropriate OSD domain to the OSD Comptroller. The Army has established close working relationships with the OSD domains, the Business Modernization and System Integration office, and the OSD Comptroller to maximize awareness of those systems requiring certification. The Army has also established the Army IT Portfolio Review Committee, whose purpose is to work with the Army domain owners to identify business systems that require certification because of the level of investment. This internal Army process will not only ensure the Army and OSD are in agreement on the business systems requiring certification, but also, as part of the review process, to ensure accuracy of reporting in the certification process.

Mr. GRECO. The Department of the Navy Chief Information Officer (DONCIO) coordinates compliance within the Department of the Navy. DONCIO uses an authoritative database to identify investments which require approval and to track them through final certification. DONCIO makes modifications to the department's Application and Database Management System to highlight essential information in this process.

Mr. MONTELONGO. Senator Ensign, the Air Force gives you full assurance that all business system investments will be identified and reported to designated approval authorities as required under the new legislation.

In order to govern system investments, the Secretary of the Air Force and Chief of Staff I created a BMMP analogue called the Air Force Operational Support Modernization Program (to emphasize the warfighter linkage) and chartered a Commanders' Integrated Product Team (CIPT). The CIPT is led by the Deputy Chief of Staff, Warfighting Integration (AF/XI) with the Air Force Chief Information Officer (AF-CIO) as the vice chair. The CIPT membership includes Major Command (MAJCOM) representation and business domain representatives mirroring the DOD BMMP domains where we are full partners with our DOD and Service colleagues in five areas: human resource management, acquisition, accounting and finance/

strategic planning and budgeting, logistics, and installations and environment. Together, we work through these domains to promote and achieve broad BMMP goals.

All our business modernization funding and efforts will be overseen by the CIPT governance structure outlined above. To accomplish this oversight, the AF-CIO has implemented a comprehensive IT portfolio management process that is consistent with the provisions of the National Defense Authorization Act for Fiscal Year 2005.

7. Senator ENSIGN. Mr. Walker, do you believe the oversight and governance provisions from the National Defense Authorization Act for Fiscal Year 2005 are a step in the right direction?

Mr. WALKER. Yes, the business system modernization oversight and governance provisions of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005<sup>2</sup> were clearly a positive step toward defining the roles and responsibilities of business system investment approval authorities. Further, the new legislation<sup>3</sup> clearly describes business system investment reporting requirements and criteria for determining when an obligation of funds for a business system modernization effort would be considered a violation of the Anti-Deficiency Act.<sup>4</sup> However, it is important to ensure that the approval authorities identified in the new legislation also have the commensurate authority for effectively performing their new roles and responsibilities. Accordingly, we propose creating a chief management official position and making this person chairman of the Defense Business Systems Management Committee, responsible and accountable for business system investment funding and the approval authorities under the act. As I testified in November 2004,<sup>5</sup> the complexity and long-term nature of DOD's business transformation efforts requires strong and sustained executive leadership over a number of years and various administrations. Our proposal is aimed at ensuring that such executive leadership can occur.

#### DEFINITION OF SYSTEMS AND DIFFERENCES BETWEEN THE NAVY AND THE OFFICE OF THE SECRETARY OF DEFENSE TESTIMONY

8. Senator ENSIGN. Mr. Greco, in your written statement you note that the Navy has reduced the number of financial systems from 2,000 in 2001 to 338 in 2004. At the same time the Department's inventory of systems has grown from a few hundred in 2001 to over 4,000 today. How could the Navy have had 2,000 systems in 2001 when the Department was reporting less than 1,000 systems?

Mr. GRECO. As leader of the Financial Management Functional Area, I can discuss the progress in reducing the number of finance and accounting systems. My answer here includes only the tally for financial management systems. The 2,000 financial systems I cited in my testimony was the Navy's total from a user survey preceding Navy-Marine Corps intranet implementation. We immediately recognized some double-counting of systems among users, which we subsequently eliminated; we also identified different systems which replicated functionality and encouraged major commands to use the "best of breed." After these actions, the total number of financial systems was set at 338. Included among these 338 systems are about 80 non-Navy systems managed by Defense Finance and Accounting Service but used by my Department.

9. Senator ENSIGN. Ms. Baldwin, Mr. Greco, and Mr. Montelongo, what is your definition of a system and is it the same as the Army, Air Force, and DOD definition of a system?

Ms. BALDWIN. In April 2004, the BMMP Steering Committee agreed to the following definition of a system: "A set of information resources organized for the collection, storage, processing, maintenance, use, sharing, dissemination, disposition, display, or transmission of information." This definition is in the DOD IT Registration Guidance dated December 21, 2004, and is consistent with the Army's definition of a system.

Mr. GRECO. The Department of the Navy uses the definition found in the Department of Defense Information Technology Registration Guidance dated 21 December 2004: ". . . a set of information resources organized for the collection, storage, processing, maintenance, use, sharing, dissemination, disposition, display, or transmission of information." This recently published definition is important because all

<sup>2</sup>Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 332, 118 Stat. 1811 (Oct. 28, 2004) (codified, in part, at 10 U.S.C. §§ 185, 2222).

<sup>3</sup>P.L. 108-375, § 332.

<sup>4</sup>31 U.S.C. § 1341(a)(1)(A).

<sup>5</sup>GAO-05-140T.

of the components now share a common definition; the definition will guide us as we proceed with portfolio management.

Mr. MONTELONGO. Sir, the Air Force uses the Assistant Secretary of Defense for Command, Control, Communications, and Intelligence Networks and Information Integration (OSD/NII) definition. Recently, OSD/NII conducted a request for information from the individual components. In their October 20, 2004 letter they stated: "the definition of a Business Management Modernization Program (BMMMP) system is a set of information resources organized for the collection, storage, processing, maintenance, use, sharing, dissemination, disposition, display, or transmission of information." (DOD Directive 8500.1, "Information Assurance," October 24, 2002, Certified Current as of November 21, 2003). We follow the OSD definition and provide information based on their definition.

10. Senator ENSIGN. Ms. Jonas, I'm sure you are aware that DOD reported that the entire Department had less than 1,000 systems in 2001. The Navy Comptroller is reporting today that Navy alone had 2,000 systems in 2001 and has eliminated 1,662 financial systems in the last 3 years. How can you reconcile this seemingly inconsistent information?

Secretary JONAS. In 2001, the Financial Management Modernization Program (FMMMP) required the DOD components to submit a listing of all financial management systems and financial feeders in their inventory. In May 2003, the program scope was expanded to include all DOD business processes, and the program was renamed the Business Management Modernization Program to reflect this expanded scope. Consequently, later updates to the Business Mission Area system database were not limited to financial management systems but included, by design, the IT systems fitting this broader definition encompassing all DOD business systems.

Today, military departments and defense agencies have a better understanding of the scope and mission of BMMMP, a clearer understanding of system inventory reporting requirements, and a consistent definition of a business system. Furthermore, the Business Mission Area systems information is being consolidated into a single military headquarters database, known as the DOD Information Technology Portfolio Repository (DITPR), to ensure that one reliable, authoritative source exists for reporting DOD business systems, while serving as the principle tool for military department CIOs to use to manage IT resources within their own departments. These factors will allow the Department to report business system inventories more accurately.

#### SERVICES' PLANS COMPARED WITH DOD'S PROGRAM

11. Senator ENSIGN. Ms. Baldwin, Mr. Greco, and Mr. Montelongo, each of you appear to have separate architectures and processes and view your Service's systems as a "portfolio." You also refer to various solutions you are developing to your Service's problems. Under the 2005 Authorization Act, domains are established for the Department, with a focus on developing department-wide, integrated solutions. Please reconcile how your Service portfolio management reconciles with DOD-wide portfolio management.

Ms. BALDWIN. The Army domain structure and portfolio management process will follow published DOD standards. These standards will enable the Army's portfolio to serve as a subset of the larger DOD portfolio. The Single Army Financial Enterprise architecture ensures the Army's financial business systems and processes comply with the DOD Business Enterprise Architecture.

Mr. GRECO. The Department of the Navy participates in a senior working group developing a Department of Defense directive governing portfolio management within all components. In this group, we are sharing the portfolio management experiences of our department of the Navy functional area managers.

Mr. MONTELONGO. Senator Ensign, the Air Force is fully engaged and integrated with DOD-wide portfolio management efforts.

In order to ensure Air Force integration with DOD BMMMP efforts, the Secretary of the Air Force and Chief of Staff chartered a CIPT. The CIPT membership includes MAJCOM representation and business domain representatives mirroring the DOD BMMMP domains where we are full partners with our DOD and Service colleagues in five areas: human resource management, acquisition, accounting and finance/strategic planning and budgeting, logistics, and installations and environment. Together, we are working through these domains to promote and achieve broad BMMMP goals. As part of this effort, the Air Force provides DOD architectural information to support their analysis and thereby contributes to a federated set of interrelated architectures. After needs for new solutions are defined through inter-

nal Air Force analysis, the Air Force works with the appropriate DOD BMMP domains to coordinate the most appropriate solution. The Air Force portfolio is also coordinated with DOD and is a subset of the DOD portfolio.

An excellent example of a department-wide, integrated solution is a project being developed under the DOD BMMP and consistent with our Enterprise Architectures is the Defense Enterprise Accounting and Management System (DEAMS). The current Air Force accounting system has been with us since the early 1960s. DEAMS is well-positioned to replace a number of antiquated Air Force and U.S. Transportation Command (USTRANSCOM) systems with a new commercial off-the-shelf (COTS) finance and accounting system that will process and record all budgetary, accounting, and vendor pay transactions; we will use this opportunity to perform business process reengineering and implement industry best practices throughout the Air Force. As an approved BMMP pilot project, DEAMS is being developed by a joint Air Force, USTRANSCOM, and DFAS team based outside of Scott Air Force Base and demonstrates a continuing trend toward DOD-wide—rather than component-specific—business and operational systems. The DEAMS Executive Steering Group includes representation from the Air Force, Army, Navy, OSD, and DFAS; therefore, the program has joint oversight.

12. Senator ENSIGN. Ms. Baldwin, Mr. Greco, and Mr. Montelongo, if you are developing Service-specific solutions, how will you address the potential hundreds of interfaces you will need to build between your own solutions, the other Services, and the various DOD-wide systems?

Ms. BALDWIN. Our solution, the General Fund Enterprise Business System, focuses on the implementation of a Chief Financial Officer Council certified commercial off-the-shelf enterprise resource planning system. This solution will be implemented in compliance with the Department's business enterprise architecture. Implementing an off-the-shelf product in compliance with the Department's business enterprise architecture facilitates the efficient exchange of data between the other Services and various DOD-wide systems.

Mr. GRECO. The Business Enterprise Architecture (BEA) should guide us not only as we employ systems to pursue our own mission requirements, but also should point out the areas where we share data or requirements with other components. This should lead to better support and use of end-to-end processes across the Department of Defense. In addition, our consolidated Enterprise Resource Planning implementation within the Navy should significantly reduce the numbers of intra-departmental interfaces required.

Mr. MONTELONGO. Senator Ensign, your question is an important one for the DOD and Services. In the Air Force, we are aggressively working this area both in actively supporting DOD initiatives, along with the other Services, and working Air Force initiatives.

Within DOD, the Air Force is a strong and involved participant in ongoing DOD efforts to provide a net-centric operating environment that will both increase data/information sharing among DOD organizations and greatly reduce the many one-to-one interfaces among our current systems. A critical component of this environment, referred to as the DOD Global Information Grid (GIG), is a common set of Net-Centric Enterprise Services (NCES) that will help ensure data interoperability within DOD and the Services. In addition, the DOD BEA is an important initiative in providing the blueprint (along with Air Force architectures) to transition to common processes and data requirements, reducing both numbers of systems and numbers of interfaces.

Within the Air Force, we continue our commitment to reduce business system interfaces for gains in both information technology (IT) efficiency and more effective support to the warfighter. We are using architecture to better help us document our business processes and information requirements, particularly those that require intra-domain or external interfaces. This architecture, the Air Force Operational Support Enterprise Architecture (OSEA), documents our business and combat support operations and is "federated" both externally and internally. The federated approach ensures that the Air Force enterprise is properly aligned with the DOD BEA and other external architectures; and that the Air Force is internally aligned from the enterprise to the domains to the programs/systems.

A major tenet of federated architectures is the identification of system interfaces for our integrated operational processes supported by multiple domains (e.g.; finance, logistics, and personnel). For each interface, we will define the business processes involved, identify the points in the processes where the data is requested or used, identify the exchange flow, identify the data exchanged, the business rules to exchange the data, and the controls on the process. Currently, the Air Force is defining the interfaces needed to implement Enterprise Resource Planning (ERP) solu-

tions such as DEAMS and DIMHRS. Additionally, the Air Force is currently working with the DOD BMMP to expand the federated architecture approach across DOD. This will provide the same insight into interfaces among the Services and other DOD components.

Defining process/system interfaces is important work, but the full benefits—efficiency and improved support—of these actions aren't realized until we actually reduce the large number of system interfaces. The Air Force plan is to use available and emerging technological solutions to accomplish this. The Air Force will fully implement the foundational IT solutions provided by the GIG, DOD BEA, and other DOD actions. The Air Force will maximize the use of architectures to guide us as we both implement ERPs to reduce the number of current systems/applications and fully exploit the advantages of the Global Combat Support System-Air Force (GCSS-AF) technical framework. The framework endorses the separation of data from its producing system/application and thereby supporting a general move to a data centric (basis for net centricity). All Air Force published data will be stored in the Air Force's Electronic Data Warehouse, called the Air Force Knowledge Service (AFKS), and serve as the source for Air Force authoritative enterprise data. All DOD components will have access to the data in AFKS as needed. A complementary technology solution is the recently developed Air Force Enterprise Service Bus (ESB). The ESB allows each system to publish data to subscribed users based on a set of business rules. The data exchanged in an interface is broadcasted to all users based on the agreement of the subscription. The ESB will be fully integrated with the AFKS. These solutions, when fully implemented, will eliminate the need for most individual point-to-point solutions and reduce the overall cost of IT development, operation, and maintenance.

13. Senator ENSIGN. Ms. Jonas, it seems that the Services each have their own architectures and are moving forward with a number of Service-specific solutions. Is the DOD architecture driving solutions or is it simply capturing what each of the Services are doing and trying to somehow piece the jigsaw puzzle together?

Secretary JONAS. The BEA provides the overall framework for other architectures to follow, and is the basis of the Department's business transformation. The BEA also provides that information (e.g., required capabilities and priorities, rules, regulations, standards, integrated schedule requirements) needed by the military departments and agencies to execute their own programs in a manner that achieves interoperability throughout the Department. The BEA was collaboratively built by teams of cross-Business Mission Area (BMA) subject matter experts to provide an overall framework for the BMA. Within this context, the military departments continue to add appropriate levels of detail needed by their own execution programs.

DOD will comply and take full advantage of the provisions of the NDAA to effectively support the Department's transformation efforts in support of the warfighter. We have adopted a federated approach to develop and maintain the BEA and the transition plan to guide modernization of the BMA.

This federated approach allows a number of organizations throughout DOD to develop and maintain a BMA-focused architecture and an associated transition plan at each level of management responsibility. This suite of integrated products will provide a coherent view of the DOD BMA modernization efforts while permitting each military department and agency to maintain a tailored, dedicated focus on mission specific solutions to achieve the overall BMA transformation goals and objectives.

14. Senator ENSIGN. Ms. Jonas, Ms. Baldwin, Mr. Greco, and Mr. Montelongo, please provide the committee with concrete details of what each Service (and, for Ms. Jonas, the Department as a whole) plans to accomplish within the next 6 months in the area of financial management reform.

Secretary JONAS. As requested by the committee, the Department provided information on December 10, 2004 (attached below), that identifies significant improvement efforts that will be completed by June 2005.

**Department of Defense**  
**Planned Financial Management Improvement Accomplishments**  
**January 2005 - June 2005**

The information provided in the accompanying tables was prepared by the Office of the Under Secretary of Defense (Comptroller) in collaboration with the Military Department Assistant Secretaries for Financial Management/Comptroller and the Defense Finance and Accounting Service in response to Senator Ensign's request to identify planned Financial Management (FM) improvement accomplishments during the next six months and also provide recommendations for Congressional action. As part of an overall Business Transformation, the Department's extensive Financial Management improvement work is focused on transformation efforts to better support the Warfighter and to improve FM stewardship responsibilities.

The information provided in the tables identifies significant improvement efforts that will be completed by June 2005. Throughout the Department, there are numerous other on-going efforts to improve financial management that extend beyond June.

To frame the Department's extensive FM Transformation efforts, they have been grouped by four improvement objective areas that must be equally addressed to resolve the Department's long-standing and deep rooted challenges. The four improvement objective areas are listed below.

1. Correcting Reporting Deficiencies
2. Cleansing Data
3. Improving Business Processes (Business Process Reengineering)
4. Modernizing Defense Business Systems

Although separately identified, the four improvement objective areas are very much related to one another. For example, (3) *business process reengineering* takes place during the implementation of new (4) *Defense Business Systems*, which require (2) *data cleansing* prior to deployment, and when completed, (1) *correct reporting deficiencies*. Accordingly, the Department understands the importance of the interrelationships of its FM improvement actions, projects and programs and is continuously working to ensure such efforts are fully integrated in a DoD-wide FM Transformation approach.

A fifth table is included to identify other significant FM improvement efforts that are important to the overall Transformation but do not fit within the four improvement objectives areas. Table-6 provides recommended Congressional actions to assist the Department's Transformation efforts.

Table 1. Correcting Reporting Deficiencies

Responsible for Action	Financial Management Improvement Action	Planned Completion Month
OUSD(C)/ FM Domain	Use the completed Standard Financial Information Structure (SFIS) framework to define the coding requirements for STIS data elements. The SFIS will be implemented as new Defense Business Systems are deployed and, when appropriate, in legacy systems. The SFIS permits people and systems to talk with each other in same language, which improves data reporting and data exchange across DoD.	May
OUSD(C)/ FM Domain	Building on the completed U.S. Standard General Ledger (USSGL) transaction library, begin using the USSGL to record financial transactions as new Defense Business Systems are deployed and where legacy systems can be changed. Provides standardized guidance, logic and rules for consistent financial statement reporting.	May
OUSD(C)/ A&FP&A	Update and issue financial management policies and guidance in the DoD Financial Management Regulation, to include incorporating the Federal Accounting Standards Advisory Board (FASAB) accounting standard for Military Equipment. In compliance with the standard, the policy will prescribe the business rules for determining the capitalized value of the complex acquisition costs of Military Equipment (e.g., ships, aircraft, combat vehicles) utilizing a standard approach that is acceptable to the auditors.	June
OUSD(C)/ A&FP&A	Establish a Real Property capitalization threshold for depreciation. Based on a business case and consistent with DoD business practices, the new policy will establish the level at which real property assets will be capitalized, depreciated and reported on the Department's Balance Sheet resolving a long-standing issue with the auditors.	June
OUSD(C)/ A&FP&A, Components and Inspector General, DoD	Utilizing a structured Management Assertion process, that ensures compliance with sec. 1008 of the FY 2002 National Defense Authorization Act requiring the Department to ensure audits of financial statements or financial statement line items result in an unqualified opinion, prepare, review and approve the following seven (7) financial statement lines items for assessment:	June
	<ul style="list-style-type: none"> <li>• Army: Fund Balance with Treasury (\$80B/36% General Fund Assets)</li> <li>• Navy: Environmental Liabilities (\$16B/56% of General Fund Liabilities), Other Assets (\$5B/2% of General Fund Assets), Working Capital Fund Debt (\$0.5B/5% of Working Capital Fund Liabilities)</li> <li>• Air Force: Appropriations Received (\$11.2B/88% of General Fund Budgetary Resources), Net Transfers (\$5.29K General Fund), Fund Balance with Treasury (\$61B/25% General Fund Assets)</li> </ul>	June

**Table 2. Cleansing Data**

Responsible for Action	Financial Management Improvement Action	Planned Completion Month
DIFAS	Complete the reconciliation of over 600,000 individual personnel pay records with entitlement databases for the Army Reserve and National Guard and resolve any discrepancies prior to implementation of Forward Compatible Pay system. Ensures Reserve and National Guard personnel are paid accurately and timely.	February
OUSD(AT&L)/P&E Policy	<p>Establish accurate and auditable values for Military Equipment (e.g., ships, aircraft, combat vehicles) by completing a valuation and documentation process for each Military Equipment (ME) Program.</p> <ul style="list-style-type: none"> <li>• ME Programs valued to date: 472</li> <li>• ME Programs valued by the end of June 2005: 790</li> <li>• Total ME Programs: 948</li> <li>• ME Programs capitalized valuations (cleansed data) to date: \$420 B</li> <li>• Total ME Programs estimated* capitalized valuations: \$1,147 B</li> </ul> <p>* Based on estimates from the Bureau of Economic Analysis</p>	June
Navy	Begin full integration testing for Converged Navy ERP supported by trial data cleanings and conversion process.	June

**Table 3. Improving Business Processes (Business Process Reengineering)**

Responsible for Action	Financial Management Improvement Action	Planned Completion Month
Defense Business Systems Management Committee (DBSMC), Acquisition Domain, FM Domain, I&E Domain, HR Domain, Logistics Domain, DoD Components	<p><b>Business Management Modernization Program:</b></p> <ul style="list-style-type: none"> <li>• Complete the Business Enterprise Architecture (BEA)/Enterprise Business Process Model (EBPM) version 2.4, which supports Financial Management by incorporating over 30,000 compliance rules and requirements. (January)</li> <li>• Conduct workshops to define and document the inter-Domain financial process overlap (touch) points between the Acquisition, Logistics and Financial Management Domains' portions of the BEA down to the information requirement level, which will result in a more robust process model. The specific touch points we will start with are Asset Accountability and Material in-Transit. (February)</li> <li>• Begin linking process steps and associated compliance rules and requirements (R&amp;R) in the BEA Enterprise Business Process Model (EBPM) to the deficient process steps identified in the Component Financial Improvement Plans (FIP). Establish and implement a process to extract applicable EBPM process steps and R&amp;Rs to provide to the Components when correcting their deficient process steps. Assists the Components when correcting deficient processes, facilitates compliance with the BEA and R&amp;Rs and validates the BEA. (June)</li> <li>• Update BEA Data Model to lay the architectural foundation for addressing a GAO environmental liability material weakness recommendation. The updated BEA Data Model data elements are associated with nearly 60% by dollar value of the total environmental liability estimate. (June)</li> </ul>	January - June
Army, Navy and Air Force	<p>Assign specific persons responsibility for the completion of each task identified in the Component Financial Improvement Plans, and develop cost estimates for each task. Provides accountability for improvement actions.</p>	June
OUSD(C) FM Domain	<p>Utilizing the completed Standard Financial Information Structure (SFIS) framework, complete mapping of the Program/Budget framework. Provides DoD-wide standardization and control of data integrity. Speeds up budget execution and funds distribution to DoD financial managers, so the right funds are available at the right time; enables DoD managers to see and measure results by establishing better linkages between financial planning, execution and performance; improves timeliness and accuracy of financial reporting.</p>	May

**Table 4. Modernizing Defense Business Systems**

Responsible for Action	Financial Management Improvement Action	Planned Completion Month
DoD	Establish the Defense Business Systems Management Committee (DBSMC), designate a vice chair and conduct the first meeting.	January
DBSMC Approval Authorities and Components	<ul style="list-style-type: none"> <li>• Identify Defense Business Systems (DBS) with FY 2005 development and modernization budgets greater than \$1M. (January)</li> <li>• Validate baseline identification of DBS that expend \$1M or more in any one year across the FYDP and use baseline for developing the FY 2006 DBS budget exhibit to include initial projected "sunset" dates for legacy systems. (March)</li> <li>• Establish Investment Review Boards. (March)</li> <li>• Schedule and conduct reviews and certifications of DBS identified to date that are planning to spend \$1M or more of FY 2005 development or modification funds. (January - June) <ul style="list-style-type: none"> <li>◦ DBS to be reviewed by June: 97</li> <li>◦ Total DBS to be reviewed in FY 2005: 132*</li> </ul> </li> </ul>	January - June
	<p>* Represents 55% (\$765M) of the FY 2005 DBS development and modification budget.</p> <p>The identification of DoD-wide DBSs subject to the review and certification process ensures compliance with the Business Transformation Strategy and BEA, supports Portfolio Management and is essential to the Transition Plan.</p>	
Air Force	Continue development of the budget formulation module of the Financial Information Resource System (FIRST) and design and coding of next budget formulation module. Transforms current legacy information into a "to-be" data structure and provides storage in a data warehouse environment; provides Automated Funds Management (AFM) capability.	January - June
DBSMC	Develop the interim BMMP Transition Plan to include high level cost estimates and system migration data for the Business Mission Area. Provides initial DBS modernization strategy.	March

DBSMC	Submit to Congress the first report summarizing actions taken to implement the DBSMC requirements in the FY 2005 National Defense Authorization Act (NDAA).	March
DBSMC and OUSD(C)/PB	Develop, prepare and submit a FY 2006 DBS budget exhibit with the President's Budget submission to the Congress, as required by the FY 2005 NDAA. The budget exhibit reflects extensive work within the Department to identify DBSS and their associated funding requirements.	March
DFAS	Begin implementation of the Forward Compatible Pay System to replace the Defense Joint Military Pay System. Initial implementation will be for the Army National Guard and Reserve and will provide more timely and accurate pay service.	March
Army, Navy and Air Force	Formalize the Military Departments' information system governance structures and Portfolio Management processes in support of the DBSMC process.	March
OUSD(C)/FM Domain, Air Force and USTRANSCOM	Award a contract to begin implementation of an accounting system for the Air Force and U.S Transportation Command (Defense Enterprise Accounting Management Systems [DEAMS]).	June
OUSD(AT&L)/I&E Domain	Complete an Analysis of Alternatives and reflect the results in the I&E Domain portion of the BMMP Transition Plan for implementing/reengineered real property inventory processes and requirements, as reflected in BEA version 2.3. When implemented, the new processes will improve real property accountability and financial reporting.	June
OUSD(C)/A&FP&A, Domains, and DoD Components	Integrate DBS Transition Plans with the Financial Improvement Plans and identify financial management deficiencies within the improvement plans where resolution of the deficiencies is dependent on future systems or modifications to systems and begin evaluating cost/benefit of changing current systems, depending on "sunset" dates, as well as other BEA criteria.	June
Inspector General, DoD	Complete 5 systems audits started in FY 2004.	June

**Table 5. Other Financial Management Improvement Initiatives**

Responsible for Action	Financial Management Improvement Action	Planned Completion Month
OUSD(C) OUSD(P&R)	Finalize the professional accounting certification policy. The policy will support the professional development of personnel performing accounting and financial management work.	April
DFAS	Develop a Department Financial Management Training Plan for financial management employees. Enhances career development and retention, facilitates change management objectives, provides opportunities to communicate FM Transformation objectives, and improves performance.	March
Department of the Navy/ Marine Corps	Develop and initiate a plan and identify a target date for the Marine Corps to prepare stand-alone financial statements and to obtain an audit opinion using its current accounting system, which is expected to be determined to be JFMIP compliant. Provides a prototype for an entity that could serve as a pilot for achieving and sustaining an unqualified audit opinion and provide valuable lessons learned.	June
OUSD(C)/ A&FP&A	Develop and implement metrics to monitor Financial Improvement Focus Areas: Environmental Liabilities, Healthcare, Military Equipment Valuation and Real Property. Incorporate metrics into the DoD Financial Management Scorecard, as applicable. Provides an effective means for management to monitor progress on Domain and Component improvement efforts.	June

**Table 6. Recommended Congressional Actions**

<p>Support for the President's Budget request for the Business Management Modernization Program and Financial Management Transformation initiatives.</p> <p>Provide authority* to the Department to obligate FY 2005 O&amp;M funds on the Defense Financial Improvement Plans (formerly the Mid-Range Financial Improvement Plans) after the Department has provided:</p> <ul style="list-style-type: none"> <li>• A Description of how the Financial Improvement Plans are critically needed to plan, manage and report financial improvement efforts not constrained by the BMMP efforts, and instead, are essential to Component efforts and the overall Financial Management Transformation.</li> <li>• A description of how the Financial Improvement Plans are to be linked to the BEA Enterprise Business Process Model to assist Component efforts to resolve financial process deficiencies.</li> <li>• Information on how the Financial Improvement Plans will support BMMP Portfolio Management of Defense Business Systems.</li> <li>• Plans to expand the use of the Financial Improvement Plans to manage the DoD Financial Management Transformation.</li> </ul> <p>* Obligation of funds was restricted by sec. 332 of the FY 2005 National Defense Authorization Act.</p>	<p>Fund approved migratory Defense Business System solutions in sufficient amounts to resource complete efforts.</p>
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Ms. BALDWIN.

1. The Army is currently developing cost estimates for meeting open requirements of the Chief Financial Office (CFO) Strategic Plan. Calculating these costs will enable the functional proponent responsible for a particular requirement to budget properly and will set a cost benchmark by which to measure our performance in meeting the goals of the plan.

2. The Army will assign responsibility to specific persons for the completion of each task identified in the strategic plan. The CFO Plan delegates 1,183 actionable and specific tasks to 22 functional Army business entities and DOD activities. Establishing a definite and personal level of accountability is the best way to ensure that all of these tasks are accomplished.

3. The Army's CIO will formalize an information system governance structure and establish a portfolio management process. Many of the Army's business domains have achieved considerable success in implementing effective portfolio management. Institutionalizing the governance and portfolio management process, the Army will establish a distinctive level of accountability for this important effort.

4. The Army will complete the validation and categorization of its financial management business systems. The process will assess functional, technical and cost information, which will enable us to identify and retire underperforming systems.

5. The Army will continue efforts to improve its soldier-pay processes. To that end, the Army established in November the Army Soldier Personnel and Pay Council. The council links the pay and personnel communities with the common goal of ensuring that every soldier is paid on time and in the correct amount. The assistant secretaries for financial management and for manpower and reserve affairs co-chair the council, whose membership also includes the sergeant major of the Army and executives from DFAS, DIHMRS, personnel, and operations. Additionally, the Army intends to develop specific performance metrics that will enable us to isolate and to remediate problem areas in the delivery of timely and accurate pay to our soldiers. Finally, this council will ensure the Army's readiness for DIHMRS implementation.

6. Finally, the Army will assert Fund Balance With Treasury, a \$89.3 billion general fund balance sheet line item, as ready for audit assessment. Assertion is the first step in a rigorous process culminating in full audit of this line item. This effort complies with the Department's management assertion process and enables an independent assessment for audit readiness.

Mr. GRECO. We will focus on specific improvements and, where necessary, refinements, to our system transition plans and the related Financial Improvement Plan (FIP). Improvements will be descriptive and measurable.

Using our Systems Transition Plan, we intend to:

- Validate our detailed baseline of DON business systems in each functional area portfolio for both Navy and Marine Corps systems. Review, and where necessary, formalize information systems governance structures.
- Ensure the appropriate reviews/certification actions are completed or scheduled for the systems in this baseline by OSD domains or approval authorities.
- Use this baseline to ensure visibility in fiscal year 2006 budget justification, consistent with NDAA guidance.
- Use this baseline to develop initial projected "sunset" dates with associated successor system(s) or possible alternatives.
- Provide initial estimates for resources required for transition plan implementation.
- Under our departmental FIP, we intend to:
  - Establish command level programs to develop a validation baseline to support future audit preparations.
  - Develop and initiate a plan for the U.S. Marine Corps to prepare stand-alone financial statements, serving as a pilot for similar departmental efforts.
  - Integrate Systems Transition Plan into the FIP and clearly indicate events within the plan that are dependent on future systems and evaluate cost/benefit of changing current systems, depending on "sunset" dates as well as other BMMP criteria.
  - Complete the assertion process on the following financial statement lines: environmental liabilities, other assets, other liabilities, and Navy Working Capital Fund (NWCF) debt.
  - Integrate current DOD metrics into a Level II scorecard to be assess command level progress.
  - Establish new cost/schedule baseline following incorporation of the above actions.

Mr. MONTELONGO. Senator Ensign, at your request, we've prepared a summary of our Air Force plans for the next 6 months in the area of business management reform, of which financial management is a key element. This is consistent with the Department of Defense summary that you received under separate cover. As I mentioned earlier in my written statement to the subcommittee, there's more to enterprise transformation than just financial management and more to financial management excellence than just modern IT systems. Lasting and true change occurs when we take an integrated approach to improve our people, our processes, and systems. That's what we've been doing and, with your support, will continue to do. We intend

to build on our successes and drive change while moving forward. Meanwhile, through all of our efforts, the global war on terrorism remains our top priority.

Looking ahead, we will achieve the following milestones during the next 6 months:

1. The Air Force, as the executive agent for the Department of Defense, will continue project plan implementation of the DEAMS. It will replace our old, non-interoperable family of accounting systems, which still use 1960s-era technology. We are on schedule to complete software and systems integrator selections, both scheduled to be completed by June 2005.

2. The Financial Information Resource System (FIRST) continues spiral development as a budget systems replacement. Spiral 1 of the Budget Formulation module is scheduled for deployment to users for testing in February 2005. This first spiral will transform the current legacy information into a "to-be" data structure and provide storage in a data warehouse environment. Design and coding efforts for Spiral 2 will be ongoing and scheduled to be completed by June 2005.

3. FIRST is also providing an Automated Funds Management (AFM) capability. Over the next 6 months, the AFM team will finalize the requirements gathering for Phase II (funds distribution to major commands) to include data interface requirements. Final operating capability for Phase II is 12 months out and is managed under a well-defined program plan.

4. Regarding non-appropriated fund accounting, we are looking forward to our upcoming milestone now scheduled for June 2005, which will achieve phased contractor off-the-shelf shared service center implementation at five test sites in the Air Force and achieve flat-file interface of three point-of-sale (POS) systems. Our goal of beginning the test by March 2005 slipped 90 days due to platform errors. The platform errors have been corrected.

5. In data warehousing efforts, we will publish a coordinated concept of operations (CONOPs) and functional requirements diagrams as well as implement (in coordination with GCSS-AF) our risk-reduction activities. This will validate our ability to use an enterprise service bus (ESB) and standard tools to extract, translate, and load (ETL) data from an existing interface into the AFKS.

6. We will complete the migration of the last 5 percent of our financial management web content to the Air Force portal on the internet. Altogether, data warehousing will provide us with a single, authoritative source for information, easily interoperable with other systems and processes, and make data retrieval more efficient, therefore saving time and effort.

7. With respect to the Air Force Information Reliability and Integration (AFIR&I) Action Plan (a.k.a., Financial Improvement Plan), we have assigned accountability to specific offices for the completion of more than 2,000 tasks. We consider this to be the best way to ensure that all associated tasks are completed in a timely and efficient manner.

8. We will complete validation of the cost estimates for meeting each of the required tasks in our AFIR&I. This will strengthen our budget justification for resources to complete our transformation effort.

9. We will continue to link process steps and associated compliance rules and requirements in the Department of Defense BEA Enterprise Business Process Model (EBPM) to the deficient process steps identified in our AFIR&I Action Plan. Where resolution of deficiencies is dependent on future systems or modifications to current systems, we will begin evaluating cost/benefit of changing current systems in relationship to "sunset" dates and other BEA criteria.

10. Utilizing the Department's structured management assertion process, we will prepare, review, and submit for approval three financial statement line items for assessment and audit:

- a. Appropriations received (\$112 billion/88 percent of General Fund Budgetary Resources)
- b. Net transfers (\$29,000 General Fund)
- c. Fund balance with Treasury (\$61 billion/25 percent General Fund Assets).

11. The Commanders' Integrated Product Team (CIFT), led by the AF/XI with the AF-CIO as the vice chair, will have an implementation plan for the mandates Congress laid out in the National Defense Authorization Act (NDAA) for Fiscal Year 2005 for portfolio management of information resources. The Air Force is preparing for full implementation by the October deadline.

12. We will validate the methodology used to link funding with performance metrics and capabilities and refine our approach where needed. Additionally, we will expand the performance-based budgeting methodology to areas beyond the pilot pro-

grams. We anticipate these efforts will enable the clear articulation of linkages between funding and outcomes in the 2007 President's budget.

13. In January, drawing from industry best practices, we have begun implementation of our new service delivery model, which is designed to significantly increase self-service capability for personal finance issues by leveraging web technologies, streamlining processes, and establishing multi-channel service delivery. Among other tasks, implementation teams will identify the customer service requirements for consolidated back office operations, identify internal control issues for resolution, and define the current working environment for our unit level resource advisors. Information technology requirements will also be defined to support a center of expertise for cost and economic analysis that will provide greater analytical capability for our wings.

14. We will implement a pilot program to enhance the use of electronic tools in the combat zone, thus speeding transactions and reducing manual effort.

15. We will take the first steps to restructure our education and training program to produce a more comprehensive and integrated set of experiences that will equip our workforce with sophisticated financial skills and capabilities.

These 15 programs address personnel, systems, metrics, and processes with a clear focus on improving financial services delivery, strengthening financial management, and achieving auditable financial statements. The end result will be an encompassing integrated business-operating environment providing relevant, actionable information for our decisionmakers.

15. Senator ENSIGN. Mr. Walker, Ms. Jonas, Ms. Baldwin, Mr. Greco, and Mr. Montelongo, what suggestions can you provide the committee for possible congressional action to assist the Department's financial reform efforts?

Mr. WALKER. We suggest two congressional actions to assist DOD in its business transformation efforts. First, continued oversight hearings by this subcommittee and others are vital in underscoring the importance of DOD's business transformation and holding DOD accountable for its performance in doing so.

Second, we propose two legislative actions to improve the likelihood of successful business transformation at DOD. The first legislative action is the creation of a full-time executive level II position for a Chief Management Official who would serve as the Deputy Secretary of Defense for Management. This position would provide the sustained executive leadership essential for addressing key stewardship responsibilities, such as strategic planning, performance and financial management, and business systems modernization, in an integrated manner. In addition, we suggest that all approval authorities, as designated under provisions of the new legislation,<sup>6</sup> be assigned to the chief management official. This official, whose performance should be based on measurable individual goals linked to overall organizational goals, would chair the Defense Business Systems Management Committee required by the act. Cognizant business area approval authorities would also report to Congress through the chief management official and the Secretary of Defense on applicable business systems that are not compliant with review requirements and to include a summary justification for noncompliance. Moreover, the chief management official's measurable progress and achievements could be reported to Congress at least annually to serve as the basis for more informed oversight.

The second legislative action is to assure that the approval authorities responsible and accountable for business system investments under the new legislation<sup>7</sup> are given direct control of DOD appropriations for business system investments. It is important to note that this action may require review of the various statutory authorities for the military Services and other DOD components and should be contingent upon the readiness of the approval authorities' to perform their roles and responsibilities. Nonetheless, we believe that control over the funds would not only improve the capacity of the designated DOD approval authorities to fulfill their responsibilities, but also increase transparency and accountability, and minimize the highly parochial approach to systems development that exists today. In our view, if these legislative and oversight actions are not taken, the Department's overall business transformation efforts are likely to fail.

Secretary JONAS. At this time, we do not have any additional suggestions or requests for congressional action, but we appreciate the committee's involvement on this critical issue and look forward to working closely with Congress to make sure that our entire business transformation effort is implemented in the most efficient and effective manner possible.

<sup>6</sup> Pub. L. No. 108-375, § 332.

<sup>7</sup> Pub. L. No. 108-375, § 332.

Ms. BALDWIN. We recognize the importance of transforming our financial enterprise and share the same vision as Congress. This is a huge undertaking in a large and complex environment, which requires patience and careful planning if we are going to do the job right. We ask Congress to help by conveying the importance of business transformation to the Army's uniformed and civilian leaders. Timely, reliable, accurate financial information is vital to the warfighter, and is critical to producing sound business decisions. Integrated information systems, like those being implemented by the Service components in collaboration with BMMP, will provide the warfighter with quality information they can use to make strategic and business decisions. Congressional help in spreading this important message will ensure support from our senior leaders.

Mr. GRECO. From the Department of the Navy's perspective, a quick and clear resolution of the requirements in Section 352 of the National Defense Authorization Act for Fiscal Year 2005 would help most. We clearly understand the intent of this language and are committed to only investing DON resources in measurable and sustainable improvements in current financial processes. These improvements I will also take into consideration the current systems environment and future transition plans. For example, development of audit validation packages for business processes relating to our funds balance with the U.S. Treasury, while included in our overall Financial Improvement Plan, also are specifically required by both the Chief Financial Officer Act (CFOA) and the Federal Financial Managers Improvement Act. We have explicitly committed resources in our budget to support these types of meaningful improvements. I believe that these improvements are consistent with your objectives as stated during the hearing. Clarification of this provision would ensure that we are using resources consistent with congressional intent.

Finally, we thank you for your interest and support. Your interest will help me convey the importance of the required actions and how they relate to the larger Department of Navy mission. Your continued support for the required resources, invested in meaningful financial reform, is also critical.

Mr. MONTELONGO. Thank you for the opportunity to provide suggestions for congressional action assisting our efforts at financial reform. Your continued support of financial reform efforts will boost our governance capability and assist us in better linking all the elements of our program. I thank you and request your continued support for our investments in this program. We ask that any "agreed-to" migratory solutions be funded, not with a blank check but, rather, based on a projection of sufficient funds to resource a complete effort.

To expedite system implementation, I request you require the Department of Defense to establish a consistent set of review criteria for Defense Business Systems Management Committee (DBSMC) system certification and set a 30-day approval/disapproval time limit for DBSMC certification. In turn, I recommend you task GAO and the Department of Defense Inspector General (DODIG) to establish and commit to materiality standards and guidelines in the audit process.

This will clarify the ground rules early and facilitate the audit process. Another mechanism that will move the "clean opinion" process along is to require the GAO, DODIG, and DOD management to use the Department's Audit Committee as an arbiter to resolve disputes in the audit process.

Finally, I ask that you invite all of us—the OSD and Service Comptrollers—back to participate in future hearings on this topic. We share your vision, commitment, and passion to have a total operations support system (including financial management) that is every bit as transformed, modern, and sophisticated as the warfighting concepts and systems we support!

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#### QUESTIONS SUBMITTED BY SENATOR CARL LEVIN

##### COMPREHENSIVE BUSINESS ENTERPRISE ARCHITECTURE AND TRANSITION PLAN

16. Senator LEVIN. Mr. Walker and Ms. Jonas, do you still believe, as you did 3 years ago, that DOD needs a comprehensive business enterprise architecture and transition plan to guide the transformation of its business systems? If so, when can we expect to see such an enterprise architecture and transition plan?

Mr. WALKER. We continue to believe DOD needs a well-defined enterprise architecture and transition plan to guide and constrain its business system modernization efforts. Research by us and others, as well as our experience in reviewing major system modernization programs over the last 10 years, show that attempting modernization efforts without an enterprise architecture results in systems that are duplicative, are not interoperable, require costly rework to interface, and do not optimally support mission operations. DOD's existing systems environment, which has,

for example: (1) little standardization across the Department, (2) multiple systems performing the same tasks, (3) the same data stored in multiple systems, and (4) manual data entry into multiple systems, is the product of not having such an architecture. Having and using an enterprise architecture to guide and constrain systems modernization programs is a Federal requirement and a recognized best practice of successful public and private sector organizations.

For any organization, development of an enterprise architecture, to include a transition plan, is a major undertaking that requires the application of disciplined program management structures and practices. These include effective planning to, among other things, establish reliable milestones for delivering clearly defined architecture products that meet established measures of quality. As we have reported, DOD has yet to develop such plans, and thus has yet to establish a reliable plan for delivery of its business enterprise architecture.

Secretary JONAS. Yes. The BEA provides the Department with the end-to-end perspective of business mission area (BMA) vision, functions, processes, data, roles and responsibilities, IT systems, and technical design standards and constraints. It includes the information necessary to ensure information interoperability within the BMA and across the warfighter and intelligence mission areas.

Because DOD elected to pursue a phased approach, with financial management as the first priority, the BEA documents DOD financial and related business rules, activities, processes, controls, functions, roles, data, and policies. The BEA provides an integrated, actionable view of the BMA and facilitates effective collaboration among many critical communities of interest to devise business process reengineering (BPR) initiatives, and support informed, well-integrated, capabilities-based decisionmaking for sound IT investment planning through effective DOD Portfolio Management (PfM).

The transition plan provides a roadmap for how the Department will migrate from its current inventory of business systems and operations to achieve the modernized end state documented in the BEA.

The goal of the Business Management and Modernization Program is to comply with the provision of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (P.L. 108-375), which requires the Department to complete an enterprise architecture and transition plan that is "sufficiently defined to effectively guide, constrain, and permit implementation of interoperable defense business system solutions," by September 30, 2005. The BEA and transition plan will continue to be updated and adjusted as investment decisions are made, to support the Department's business transformation goals.

17. Senator LEVIN. Mr. Walker and Ms. Jonas, in the absence of such an enterprise architecture and transition plan, are the individual efforts of the three military Services a positive contribution to the overall financial management of the Department, or are these efforts counterproductive?

Mr. WALKER. Although the efforts of the three military Services, if managed effectively, could result in improvements in their respective business operations, they are unlikely to result in corporate solutions to DOD's numerous problems, and thus fall short of the goals established by DOD's business management modernization program. It is important to note that DOD's stovepiped, duplicative, and nonintegrated systems environment evolved over time as DOD components—each receiving their own funding—developed narrowly focused parochial system solutions to their own business problems. Unless individual DOD component efforts incorporate many of the key elements for successful reform highlighted in my testimony, such as an enterprise architecture and transition plan, they may actually hinder the business transformation envisioned by the Secretary of Defense. We are currently reviewing the Navy's ERP, which we plan to report on in August 2005.

Secretary JONAS. The efforts of the military Services are positive, not counterproductive; the BEA was collaboratively built by teams of cross-business domain and mission area subject matter experts and is designed to address systemic problems in DOD business and financial management. The BEA effort is closely linked with ongoing efforts by the military departments to correct improve financial management processes, described in the financial management transformation plan. Both efforts support the development and execution of a comprehensive Transition Plan for the Business Mission Area.

The Financial Management Transformation Plan is designed to layout those initiatives and milestones necessary to correct selected military department financial reporting deficiencies which preclude DOD from producing auditable financial statements. For example, actions necessary to correct some financial reporting deficiencies are simply correction of procedural failures to comply with existing policy and accounting standards that the military departments can remedy with better in-

ternal controls. Other deficiencies result from lack of adequate training. Still other deficiencies are linked to faulty or incomplete financial transaction processing, which occurs in feeder systems, outside of financial IT systems, and which the components can repair or redesign in accordance with the broader business processes represented in the BEA, and in accordance with the milestones laid out in the business mission area transition plan. The BEA and military department actions represented in the financial management transformation plan are complimentary in working towards achieving improved financial management throughout DOD.

QUESTIONS SUBMITTED BY SENATOR DANIEL K. AKAKA

FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEMS

18. Senator AKAKA. Mr. Walker, to address financial reporting deficiencies in DOD's current systems, each of the military departments is working to develop a new financial management system. At this point, it appears that the military department's efforts are focusing primarily on financial management and accounting systems, to the exclusion of so-called "feeder" systems that support the Department's acquisition, logistics, human resources, installations, and other programs. The Navy effort, which appears to be the farthest along at this point, also excludes substantial parts of the Department of the Navy, such as depots, shipboard systems, and the entire Marine Corps. Do you believe that this approach has been appropriately coordinated at the DOD level, or are we at risk of repeating the kind of stovepiped solutions that have led to problems in the past?

Mr. WALKER. We believe that DOD components have not appropriately coordinated all of their reform efforts with DOD. This serves to contribute, at least in part, to DOD's continued risk of stovepiped business system modernization decisions and investments that do not result in integrated corporate solutions. For example, in September 2004 we reported<sup>8</sup> that financial improvement plans developed by key DOD components, and provided to the DOD Comptroller, were not clearly linked to DOD's business management modernization program and lacked sufficient details to consistently identify whether a proposed corrective action included a manual workaround or business system enhancement or replacement. In addition, in May 2004 we reported<sup>9</sup> that neither the Army's Logistics Modernization Program nor the Defense Logistics Agency's (DLA) Business Systems Modernization (BSM) were directed toward providing corporate solutions to the Department's longstanding weaknesses in inventory and logistics management areas, such as total asset visibility. Rather, both projects were focused on stovepiped areas of operations within the Army and Defense Logistics Agency.

19. Senator AKAKA. Mr. Walker, what is your view of the impact that this piecemeal approach is likely to have on the Department's long-term ability to produce timely, accurate data for management decisions?

Mr. WALKER. In our opinion, while piecemeal approaches may result in marginal improvements within narrowly defined business areas or DOD components, they are also likely to result in the continued proliferation of nonintegrated, nonstandardized, stovepiped solutions. As a result, we believe they will fail to significantly improve the Department's ability to produce timely and accurate information for informed management decisions. For that reason, we continue to believe that a successful business transformation effort should have a Department-wide focus, rather than a continuation of a DOD component based approach.

20. Senator AKAKA. Ms. Jonas, what are your views on this issue of financial management and accounting systems?

Secretary JONAS. Senator Akaka, it is imperative that we accomplish real change in DOD financial management that strengthens our ability to manage critical DOD resources to enhance the security of our Nation. To this end, it is critical that the military Departments' efforts to improve IT support for financial management include "feeder," as well as financial and accounting systems, so that the real transactions of doing the daily business of DOD to support warfighters are properly and automatically executed on time, every time. To accelerate transformation within DOD, we have implemented several e-Government system initiatives within the Ac-

<sup>8</sup> GAO-04-910R.

<sup>9</sup> GAO, DOD Business Systems Modernization: Billions Continue to Be Invested with Inadequate Management Oversight and Accountability, GAO-04-615 (Washington, DC: May 27, 2004).

quisition community that are standards across the Federal Government. In addition, our I Logistics community is pursuing several initiatives using COTS products to improve the physical tracking of inventory items, such as the Converged Navy Enterprise Resource Planning System and DLA's Business System Modernization. The Installations and Environments community teamed with the Army to ensure its real property inventory requirements are incorporated into the General Fund Enterprise Business System. The Department is moving ahead with implementing enterprise-wide "feeder" system solutions in the area of procurement (the Standard Procurement System), in the area of military personnel (Defense Integrated Military Human Resource System), and in the area of travel with the Defense Travel System. The Department's approach has been coordinated at the DOD level and continues to be reviewed to ensure alignment with the Department's transformation objectives.

#### DOMAINS

21. Senator AKAKA. Mr. Walker, you recommend in your testimony that business systems modernization money be appropriated directly to the DOD "domains" and that they, rather than the military departments, be made responsible and accountable for systems investments within their business areas. At present, however, it appears that the DOD domains may not even have the institutional capacity to conduct the comprehensive review and oversight of business modernization spending required by current law. Do you believe that the DOD domains currently have the institutional capability that would be needed to handle direct appropriation of appropriations for all systems investments within their business areas? If not, how would the domains go about building this capability?

Mr. WALKER. Based upon our reviews of DOD's efforts to develop an enterprise architecture and control business system investments, as well as our reviews of select component efforts to develop and implement business systems, we believe that DOD does not yet have the capability, either at the department level, including the domains, or across all components to ensure that integrated corporate solutions are developed. This is necessary in order to improve DOD's ability to produce timely, accurate, and complete data for management decisionmaking. DOD and the domains have recently begun to implement changes in their management policies and processes that are intended to comply with the recently enacted legislation.<sup>10</sup> As a result, it is too soon to assess the impact of these oversight and accountability changes, as required by the legislation, on the Department's ability to oversee and monitor business system investments. However, we continue to advocate that business domains' (approval authorities') control related funds once they are ready to effectively execute this control. This would enhance transparency and the capacity of DOD's designated approval authorities to fulfill their responsibilities, as required under the act, and minimize the parochial approach to systems development that exists today. We plan to work with DOD in its efforts to build the domains' capacity to effectively execute their roles and responsibilities.

22. Senator AKAKA. Ms. Jonas, Ms. Baldwin, Mr. Greco, and Mr. Montelongo, what are your views on this issue of domains?

Secretary JONAS. The Department of Defense created business domains, an industry best practice, to assign accountability to the appropriate subject matter experts for single-source interpretation of rules, regulations, and requirements that must be instantiated in DOD policy and business IT systems. The business domains oversee business transformation by devising key reengineered business practices regardless of traditional organizational boundaries, in close coordination with the military Departments and defense agencies. The business domains have a strong oversight role in the Department's current investment review and acquisition oversight processes. The Ronald W. Reagan NDAA for Fiscal Year 2005 requires the Department to establish approval authorities and investment review boards that are closely aligned with the boundaries of functional responsibility of the current business domain structure. We intend to review our current domain structure, and modify it as necessary, when implementing the provisions stipulated in the NDAA for Fiscal Year 2005 to ensure that we maintain an effective process that allows adequate oversight of business transformation activities in close coordination with the military departments and defense agencies. It is important that we maintain and strengthen the role the business domains have performed in providing subject matter expertise within clearly defined boundaries, to guide the DOD business transformation effort.

<sup>10</sup> Pub. L. No. 108-375, § 332.

However, we recognize the urgent need to consolidate, streamline, and standardize the oversight and administrative functions of the OSD business domains, as an integral part of standing up the governance processes required by the NDAA for Fiscal Year 2005.

Ms. BALDWIN. The adoption of domains and institutionalization of information technology portfolio management add value to the management and control of the Department's information technology programs. Under the Defense Business System Management Council (DBSMC), DOD is establishing investment review boards responsible for reviewing and approving IT investments. The investment review boards, established at the DOD level within each domain, will prioritize and review investments in accordance with appropriate requirements. The DBSMC will serve as the final arbiter of conflict between business missions when all other avenues of resolution have failed. The DBSMC will also coordinate the continual alignment of domain efforts to ensure achievement of broad DOD business transformation goals. The intent is for the investment review boards to leverage existing acquisition program oversight structures, and not invent new oversight requirements.

Mr. GRECO. I support the organizational construct and the mutual goals of the Business Management Modernization Program domains. The domains need to continue to streamline and speed up their systems assessments as well as investment approvals. Some delegation of approval authority to the components may be required to ameliorate the volume of reviews, ensuring more timely approvals.

Mr. MONTELONGO. In my opinion, the dollars should continue to come to the Services. The primary reason for this position is that the Services are held responsible for training, organizing, and equipping the force. The Air Force is organized to meet these responsibilities and effectively manage its resources. For example, Air Education and Training Command is the lead agent for the Air Force in preparing and developing airmen; the Air Force MAJCOMs organize and develop ready units for the joint commanders; Air Force Materiel Command is the lead agent in equipping and supplying Air Force units; and, the Air Staff structure is in place to oversee these operations. We believe the role of the Department of Defense domain owners, on the other hand, is to provide architectural standards and interfaces. Domains can exercise oversight and ensure cross-domain integration, and propose adjustments to Service budgets for alignment with domain objectives.

The real issue is how the work gets done and who is accountable. Investment decisions must remain with the Services because they own the requirements and will be held accountable if capability is not delivered on time to support mission accomplishment.

#### HUMAN CAPITAL PLANNING

23. Senator AKAKA. Mr. Walker, you state in your prepared statement that one of the keys to successful reform of DOD's financial management systems is "addressing human capital issues, such as the adequacy of staff levels, skills, and experience available" to address the Department's problems. You go on to state your strong support for initiatives to modernize DOD human capital policies, including a properly developed and implemented National Security Personnel System. However, human capital flexibility won't do the Department much good in the absence of systematic planning on how that flexibility will be used to address issues such as the staff levels, skills, and experience of the DOD workforce. Last June, GAO released a report titled: "DOD Civilian Personnel: Comprehensive Strategic Workforce Plans Needed." In that report, you found that none of DOD's workforce plans "included analyses of the gaps between critical skills and competencies" between the current workforce and the workforce that DOD will need in the future. Without such gap analyses, you said, DOD will have difficulty designing strategies to hire, develop, and retain the workforce it needs. Could you comment on the need for better strategic human capital planning at DOD and its relationship to persistent management problems at the Department—like financial management and acquisition management—that continue to appear on your government-wide high-risk list?

Mr. WALKER. We have reported that whether agencies have the institutional infrastructure in place to make effective use of the new human capital authorities is a critical question for consideration in granting broad-based exemption from current law. An essential element of this infrastructure is a human capital planning process that integrates the agency's human capital policies, strategies, and programs with its program goals and mission, and desired outcomes. More effective human capital planning would be a key step towards resolving DOD's persistent management problems. For example, inadequate staffing and training contributed to DOD's inability to deliver timely and accurate pay to mobilized Army National Guard and Reserve

soldiers, and inadequate investigative and adjudicative workforces contributed to hindering the reduction of security clearance backlogs. The keys to successful reform must include (1) a human capital planning process that assures that personnel have the necessary skills, experience, and responsibilities and authority to implement the plan and (2) implementation of results oriented performance measures and systems that link institutional, unit, and individual personnel goals, measures, and expectations.

#### STEPS TO UPGRADE DEPARTMENT BUSINESS SYSTEMS

24. Senator AKAKA. Ms. Baldwin, Mr. Greco, and Mr. Montelongo, I would appreciate if each of the comptrollers of the three military departments would provide information about specific steps that have been taken, since the initiation of the business enterprise architecture in July 2001, to upgrade their business systems. In particular, I would appreciate if you would: identify each specific legacy system that your Service has terminated as a result of the business systems modernization program, and the date on which it was terminated; identify each specific legacy system that your Service plans to terminate in the next 24 months, and the target date for terminating the system; provide specific examples of significant changes that your Service has made to its business operation processes and systems, to improve the reliability of data for decisionmakers; and provide specific examples of significant corrective actions that your Service has taken to address deficiencies in areas such as environmental liabilities, property, plan and equipment, material in the possession of contractors, and inventory valuation.

Ms. BALDWIN. Since initiation of the business systems modernization program, we have terminated the State Accounting and Budget Reservations System, formerly operated by the Army National Guard. This system was terminated in January 2004.

We plan to terminate 25 systems with another 34 marked for possible termination as part of our General Fund Enterprise Business System (GFEBS) program. The 25 systems to be terminated are shown in the table below. The GFEBS program will conduct a business case analysis on the 34 additional systems to decide on their termination. The dates in the table below are tentative dates—the integration of the systems will begin in 2006, and the detailed integration and termination schedule will be determined in the program initiation phases (post-award).

System Name	Termination Date
Fadtool .....	August 2008
MS Access dat .....	August 2008
ATLAS .....	August 2008
Government Transportation System (GTS) .....	August 2008
DARS .....	August 2008
IPAC Wizard .....	August 2008
Standard Finance System (STANFINS) .....	August 2008
Web Commitment Account System (WebCAS) .....	August 2008
Installation Supply Buffer .....	August 2008
STARS One Pay .....	August 2008
Defense Joint Accounting System (DJAS) .....	August 2008
ACQUILINE/PR Web .....	May 2009
Operational Data Store .....	May 2009
OLRV .....	May 2009
ARCS .....	May 2009
PARSS .....	May 2009
Army Shared Knowledge-Financial Management (ASK-FM) .....	May 2009
PROBE .....	May 2009
AVPRAT .....	May 2009
SCRT .....	May 2009
Commercial Accounts Processing System (CAPS) .....	May 2009
SLAD .....	May 2009
CRP .....	May 2009
Standard O&M R&D System (SOMARDS) .....	May 2009
VPIS .....	May 2009

The Army has made significant progress to correct deficiencies in reporting equipment, inventory, and environmental liabilities. These improvements include:

Defense Property Accountability System (DPAS) Implementation—DPAS is an automated and integrated property and financial system used to ac-

count for Army installation equipment that captures accounting and depreciation data, and provides full visibility of Army's capital assets. In fiscal year 2001, we implemented DPAS to 216 Army sites.

Accounting for Military Equipment—Effort to establish, issue, and implement Army guidance based upon OUSD(ATL) business rules to account for military equipment on the Army's balance sheet.

Accounting for Internal Use Software—Identifies, values, and accounts for all business software products used throughout the Army for recording on the Army's balance sheet.

Accounting for Government Furnished Equipment (GFE)—Army-wide effort to establish visibility and financial reporting of GFE in the custody of contractors. Proof of concept completed in April 2004. Full implementation targeted for the end of fiscal year 2006.

Real property data clean-up in the Army National Guard (ARNG)—Effort to implement standard operating procedures for accurate real property accountability throughout the ARNG state real property offices.

Property Book Unit Supply Enhanced—Web-based, fully interactive property accountability system for deployable Army units. Provides major improvement to operational readiness, timely and accurate information flow, and asset visibility including forward operations.

Environmental Liabilities Process Improvements—The Army Environmental Center developed the "Cost to Complete Handbook for Environmental Liabilities" to address the material weaknesses surrounding the reporting for Environmental Liabilities on the Army's balance sheet. The Army also continues to refine cost estimating tools to ensure that environmental liability estimates are complete and supported.

Mr. GRECO. The comprehensive nature of your question would require an answer of great length. When the Department of the Navy develops its business systems transition plan, the lifespan of each system will be enumerated, and this plan will be provided to the committee this year upon completion. As I mentioned in my prepared statement, the ERP pilots and ultimately converged ERP represent the cornerstone for our Business Systems Modernization Program. This program has affected, and will continue to impact, the current legacy systems environment. For example, I have attached a spreadsheet comprising three tabs: Tab 1 is a tentative forecast of systems to be terminated within the next 2 years as converged ERP is deployed; Tab 2 is a list of systems already retired as ERP pilots were developed and used; and, the third tab is a list of systems which will be employed by fewer users as converged ERP is implemented.

Finally, implementing ERP will mean changing business processes to the maximum extent possible to take advantage of best practices embodied in this off-the-shelf software. For example, Naval Air Systems Command's ERP pilot automated manual processes such as engineering change proposal approvals, reducing their processing time from 87 to 25 days.

Application/System Name	SYS/COM/Location	Sunset Date
WINSALTS (WINDOWS STANDARD AUTOMATED LOGISTICS TOOL SET)	SI MA NORFOLK VA	Apr-05
DEFENSE PROPERTY ACCOUNTABILITY SYSTEM - REPORT	SI MA NORFOLK VA	Apr-05
DESIGNER/REPORT VIEWER	SI MA NORFOLK VA	Apr-05
DEFENSE PROPERTY ACCOUNTABILITY SYSTEM - REPORT	SI MA NORFOLK VA	Apr-05
DESIGNER/REPORT VIEWER	SI MA NORFOLK VA	Apr-05
MACHINERY ALTERATION TRACKING SYSTEM	SI MA NORFOLK VA	Apr-05
SKED	SI MA NORFOLK VA	Apr-05
TECHNICAL LIBRARY MANAGEMENT SYSTEM	SI MA NORFOLK VA	Apr-05
CONFIGURATION DATA MANAGER DATABASE OPEN ARCHITECTURE	SI MA NORFOLK VA	Apr-05
TECHNICAL LIBRARY MANAGEMENT SYSTEM	SI MA NORFOLK VA	Apr-05
CORPORATE ENTERPRISE AND TRAINING ACTIVITY RESOURCE SYSTEM	SI MA NORFOLK VA	Apr-05
SKED	SI MA NORFOLK VA	Apr-05
SYSTEM - IMAGER	SI MA NORFOLK VA	Apr-05
Maintenance Resource Management System	SI MA NORFOLK VA	Apr-05
REGIONAL MAINTENANCE AUTOMATED INFORMATION SYSTEM (CLIENT/ SERVER VERSION)	SI MA NORFOLK VA	Apr-05
REGIONAL MAINTENANCE AUTOMATED INFORMATION SYSTEM (CITRIX VERSION)	SI MA NORFOLK VA	Apr-05
JOINT COMPUTER AIDED LOGISTICS AND ACQUISITION SUPPORT PC CLIENT	SI MA NORFOLK VA	Apr-05
MEASURE AUTOMATED INFORMATION SYSTEM PERSONAL COMPUTER	SI MA NORFOLK VA	Apr-05
MICROSOFT PROJECT 2000	SI MA NORFOLK VA	Apr-05
STANDARD ACCOUNTING AND REPORTING SYSTEM	SI MA NORFOLK VA	Apr-05
ONE TOUCH FINANCIAL WEB	SI MA NORFOLK VA	Apr-05
GENERAL DISTRIBUTION ALLOWANCE PARTS LIST	SI MA NORFOLK VA	Apr-05
MICRO PERIODIC MAINTENANCE REQUIREMENT	SI MA NORFOLK VA	Apr-05
PMS VIEWER	SI MA NORFOLK VA	Apr-05
HAYSTACK (TECHNICAL INFORMATION LIBRARY)	SI MA NORFOLK VA	Apr-05
SKED 3.0 - PREVENTATIVE MAINTENANCE SCHEDULING PROGRAM	SI MA NORFOLK VA	Apr-05
ADobe ACROBAT READER	SI MA NORFOLK VA	Apr-05
FLEET AWARDS PROGRAM	SI MA NORFOLK VA	Apr-05
MY PAY/EMPLOYEE MEMBER SELF SERVICE	SI MA NORFOLK VA	Apr-05

## Navy Converged ERP Partial Legacy System Retirement

NAVY TRAINING MANAGEMENT AND PLANNING SYSTEM (NT MPS)	SIIMA NORFOLK VA	Apr-05
CAREER INFORMATION PROGRAM MANAGEMENT SYSTEM 99 (CIPM99)	SIIMA NORFOLK VA	Apr-05
WINSALTS (WINDOWS STANDARD AUTOMATED LOGISTICS TOOL SET)	SIIMA NORFOLK VA	Apr-05
PLANNED MAINTENANCE SYSTEM	SIIMA NORFOLK VA	Apr-05
CONFIGURATION DATA MANAGERS DATABASE - OPEN ARCHITECTURE	COMREGSUPGRU NORFOLK VA	Apr-05
JOINT ENGINEERING DATA MANAGEMENT AND INFORMATION CONTROL SYSTEM INDEX RETRIEVER	COMREGSUPGRU NORFOLK VA	Apr-05
MICROSNAP BASELINE	COMREGSUPGRU NORFOLK VA	Apr-05
NAVY MAINTENANCE DATABASE	COMREGSUPGRU NORFOLK VA	Apr-05
OPEN ARCHITECTURAL RETRIEVAL SYSTEM	COMREGSUPGRU NORFOLK VA	Apr-05
DEFENSE AUTOMATIC ADDRESSING SYSTEM CENTER AUTOMATED	COMREGSUPGRU NORFOLK VA	Apr-05
MESSAGE EXCHANGE SYSTEM	SUPSHIP PORTSMOUTH DET (S)	Apr-05
EPIC EDITOR	FTSCPAC SAN DIEGO CA	Apr-05
NEW PLANNED MAINTENANCE SYSTEM EDITOR	FTSCPAC SAN DIEGO CA	Apr-05
CORPORATE DOCUMENT MANAGEMENT SYSTEM LIVELINK	SUPSHIP PORTSMOUTH VA	Apr-05
MICROSTATION V8 2004 EDITION	SUPSHIP PORTSMOUTH VA	Apr-05
INTUIT QUICKEN PREMIER FOR WINDOWS	SUPSHIP PORTSMOUTH VA	Apr-05
STANDARD PROCUREMENT SYSTEM	SUPSHIP PORTSMOUTH VA	Apr-05
MICROSOFT PROJECT 2002 PROFESSIONAL	SUPSHIP PORTSMOUTH VA	Apr-05
DEFENSE AUTOMATIC ADDRESSING SYSTEM CENTER AUTOMATED	SUPSHIP PORTSMOUTH VA	Apr-05
MESSAGE EXCHANGE SYSTEM	SUPSHIP PORTSMOUTH VA	Apr-05
JOINT ENGINEERING DATA MANAGEMENT INFORMATION & CONTROL SYSTEM - IMAGER	SUPSHIP PORTSMOUTH VA	Apr-05
AUTOMATED FUNDING DOCUMENT SYSTEM	SUPSHIP PORTSMOUTH VA	Apr-05
MICROSTATION	SUPSHIP PORTSMOUTH VA	Apr-05
TECHNICAL SUPPORT MANAGEMENT	SUPSHIP PORTSMOUTH VA	Apr-05
TECHNICAL PUBLICATION LIBRARY MANAGEMENT PROGRAM	SUPSHIP PORTSMOUTH VA	Apr-05
SEAGATE CRYSTAL ENTERPRISE	SUPSHIP PORTSMOUTH VA	Apr-05
REVISED ALTERNATIVE DATAFLOW WEB	SUPSHIP PORTSMOUTH VA	Apr-05
INTEGRATED CONDITION ASSESSMENT SYSTEM	SUPSHIP PORTSMOUTH VA	Apr-05
AFPL GHOSTSCRIPT	SUPSHIP PORTSMOUTH VA	Apr-05
INTERACTIVE COMPUTER ASSISTED PROVISIONING SYSTEM	SUPSHIP PORTSMOUTH VA	Apr-05
VOLOVIEW EXPRESS	SUPSHIP PORTSMOUTH VA	Apr-05

ONE TOUCH SUPPORT	SUPSHIP PORTSMOUTH VA	Apr-05
STANDARD NAVY DISTRIBUTION LIST	SUPSHIP PORTSMOUTH VA	Apr-05
PRIMAVERA PROJECT PLANNER	SUPSHIP PORTSMOUTH VA	Apr-05
MICROSOFT VISIO	SUPSHIP PORTSMOUTH VA	Apr-05
GHOSTVIEW	SUPSHIP PORTSMOUTH VA	Apr-05
DOCUANALYZER	SUPSHIP PORTSMOUTH VA	Apr-05
QUICK VIEW PLUS	SUPSHIP PORTSMOUTH VA	Apr-05
SEAGATE CRYSTAL REPORTS	SUPSHIP PORTSMOUTH VA	Apr-05
DEFENSE CIVILIAN PAY SYSTEM	SUPSHIP PORTSMOUTH VA	Apr-05
NAVAL INFORMATION TECHNOLOGY EXHIBITS-STANDARD REPORTING PROGRAM - BUDGET SYSTEM	SUPSHIP PORTSMOUTH VA	Apr-05
CLAIMANT FINANCIAL MANAGEMENT SYSTEM	SUPSHIP PORTSMOUTH VA	Apr-05
INTEGRATED CLASS MAINTENANCE PLAN	SUPSHIP PORTSMOUTH VA	Apr-05
MAINTENANCE REQUIREMENTS SYSTEM	SUPSHIP PORTSMOUTH VA	Apr-05
CORPORATE DOCUMENT MANAGEMENT SYSTEM/LIVELINK WIDE AREA WORKFLOW	SUPSHIP SAN DIEGO CA	Apr-05
CONFIGURATION DATA MANAGERS DATABASE - OPEN ARCHITECTURE	SUPSHIP SAN DIEGO CA	Apr-05
CONFIGURATION DATA MANAGERS DATABASE - OPEN ARCHITECTURE	SUPSHIP SAN DIEGO CA	Apr-05
MICROSOFT PROJECT 2000	SUPSHIP SAN DIEGO CA	Apr-05
PRO MECHANICA	SUPSHIP SAN DIEGO CA	Apr-05
TECHNICAL SUPPORT MANAGEMENT	SUPSHIP SAN DIEGO CA	Apr-05
PRO ENGINEER	SUPSHIP SAN DIEGO CA	Apr-05
MOBIUS DOCUANALYZER	SUPSHIP SAN DIEGO CA	Apr-05
VISUAL DEFICIENCY TRACKING SYSTEM-WEB VERSION	SUPSHIP SAN DIEGO CA	Apr-05
DEFENSE AUTOMATIC ADDRESSING SYSTEM CENTER AUTOMATED MESSAGE EXCHANGE SYSTEM	SUPSHIP SAN DIEGO CA	Apr-05
DOCUMENTOIRECT	SUPSHIP SAN DIEGO CA	Apr-05
BRIOS QR VIEWER	SUPSHIP SAN DIEGO CA	Apr-05
MOBIUS DOCUMENT DIRECT	SUPSHIP SAN DIEGO CA	Apr-05
WIDE AREA WORKFLOW	SUPSHIP SAN DIEGO CA	Apr-05
WINSIGHT	SUPSHIP SAN DIEGO CA	Apr-05
MOMENTUM FINANCIALS	SUPSHIP SAN DIEGO CA	Apr-05
WORK/YEAR PERSONNEL COST SYSTEM	SUPSHIP SAN DIEGO CA	Apr-05
PRO ENGINEER	SUPSHIP SAN DIEGO CA	Apr-05
CONFIGURATION DATA MANAGER DATABASE OPEN ARCHITECTURE	SUPSHIP SAN DIEGO CA	Apr-05

SEAGATE CRYSTAL REPORTS	SUPSHIP SAN DIEGO CA	Apr-05
PRIMAVERA PROJECT PLANNER	SUPSHIP SAN DIEGO CA	Apr-05
COMPUTER OPTIMIZED BATCH RECONCILIATION APPLICATION ON THE WEB	SUPSHIP SAN DIEGO CA	Apr-05
STANDARD PROCUREMENT SYSTEM	SUPSHIP SAN DIEGO CA	Apr-05
CORPORATE DOCUMENT MANAGEMENT REPORTING SYSTEM	SUPSHIP SAN DIEGO CA	Apr-05
PROCUREMENT MANAGEMENT REPORTING SYSTEM	SUPSHIP SAN DIEGO CA	Apr-05
MICROSOFT VISIO VIEWER 2003	FTSCLANT	Apr-05
HTTPS://HMIRSMSSD.DLIS.DLA.MIL/HMIRSS	FTSCLANT	Apr-05
CRYSTAL OFFLINE VIEWER	FTSCLANT	Apr-05
NTCSS RELATIONAL SUPPLY II	FTSCLANT	Apr-05
METPRO	FTSCLANT	Apr-05
NTCSS RELATIONAL SUPPLY II	FTSCLANT	Apr-05
NTCSS ORGANIZATIONAL MAINTENANCE MANAGEMENT SYSTEM NEXT GENERATION	FTSCLANT	Apr-05
JOINT ENGINEERING DATA MANAGEMENT INFORMATION & CONTROL SYSTEM - PC IECMCS V2.51	FTSCLANT	Apr-05
JOINT ENGINEERING DATA MANAGEMENT INFORMATION AND CONTROL SYSTEM	FTSCLANT	Apr-05
BUDGET BUILDER 2000	FTSCLANT	Apr-05
ARBORTEXT ADEPT EDITOR CLIENT	FTSCLANT	Apr-05
BUPERS ACCESS	FTSCLANT	Apr-05
INTEGRATED BATTLEFORCE TRAINING	FTSCLANT	Apr-05
CALIBRATION RECALL INVENTORY SYSTEM	FTSCLANT	Apr-05
BOILER INSPECTION AND REPAIR MANAGEMENT INFORMATION SYSTEM	FTSCLANT	Apr-05
COMMERCIAL ASSET VISIBILITY-ORGANIC REPAIRABLES MODULE	BOA SIMA SAN DIEGO	Apr-05
TOTAL REGIONAL EXECUTION SYSTEM	BOA SIMA SAN DIEGO	Apr-05
SEAGATE CRYSTAL REPORTS	BOA SIMA SAN DIEGO	Apr-05
SEAGATE CRYSTAL REPORTS	BOA SIMA SAN DIEGO	Apr-05
HAZARDOUS SUBSTANCE MANAGEMENT SYSTEM	BOA SIMA MAYPORT	Jul-05
PAGEKEEPER	BOA SIMA MAYPORT	Jul-05
DEFENSE ENVIR INFORMATION EXCHANGE WEBSITE (HTTPS://WWW.DENIX.OSD.MIL/)	SIMA MAYPORT	Jul-05
MICROSOFT PROJECT 2002	SIMA MAYPORT	Jul-05
COMPASS	SIMA NRMF INGLESIDE TX	Jul-05
FEDERAL LOGISTICS	SIMA NRMF INGLESIDE TX	Jul-05

WIPP DPAS DOWNLOADING SYSTEM	SIM4 NRMF INGLESIDE TX	Jul-05
FUNDS AND COST TRACKING SYSTEM	SIM4 NRMF INGLESIDE TX	Jul-05
MICROSOFT PROJECT '98	SIM4 NRMF INGLESIDE TX	Jul-05
SSAA GENERATION TOOL	SIM4 NRMF INGLESIDE TX	Jul-05
PC-METROLOGY ONLINE QUERY SYSTEM SUPPORT INFORMATION SYSTEM -	SIM4 Pascagoula, MS	Jul-05
SHIP CONFIGURATION LOGISTICS CROSS REFERENCE	SIM4 Pascagoula, MS	Jul-05
MY EUREKA	SIM4 Pascagoula, MS	Jul-05
METROLOGY REQUIREMENTS ON-LINE QUERY SYSTEM	SIM4 Pascagoula, MS	Jul-05
MICROSOFT PROJECT STANDARD 2003	COMREGSUPPGRU	Jul-05
MICROSNAP QUICK!	COMREGSUPPGRU	Jul-05
TRAINING MANAGEMENT SYSTEM 2	COMREGSUPPGRU	Jul-05
INTUIT QUICKEN PREMIER FOR WINDOWS	COMREGSUPPGRU	Jul-05
SEAGATE CRYSTAL REPORTS DEVELOPER	COMREGSUPPGRU	Jul-05
MICROSNAP QUICK!	COMREGSUPPGRU	Jul-05
MICROSNAP BASELINE	COMREGSUPPGRU	Jul-05
IBIS HAYSTACK FOR WINDOWS ONLINE	COMREGSUPPGRU	Jul-05
NAVY KNOWLEDGE ONLINE WEBSITE	COMREGSUPPGRU	Jul-05
SEAGATE CRYSTAL REPORTS DEVELOPER	COMREGSUPPGRU	Jul-05
POWERTRACK UNIVERSAL PAYMENT EDITION	SUPSHIP JACKSONVILLE FL	Jul-05
PRODUCT DATA REPORTING AND EVALUATION PROGRAM	SUPSHIP JACKSONVILLE FL	Jul-05
SEAGATE CRYSTAL REPORTS	SUPSHIP JACKSONVILLE FL	Jul-05
MY EUREKA REPORT DESIGNER	SUPSHIP JACKSONVILLE DET	Jul-05
HQWEB OPERATIONS AND ADMINISTRATION	OPNAV	Oct-05
TRIM CONTEXT	OPNAV	Oct-05
CHEMICAL BIOLOGICAL RADIOLOGICAL - DEFENSE (CBR-D) TOTAL	OPNAV	Oct-05
ASSET VISIBILITY MANAGEMENT SYSTEM (AVMS)	OPNAV	Oct-05
HQWEB	OPNAV	Oct-05
ACDSEE	OPNAV	Oct-05
DOCUMENTUM SITECONTENT MANAGEMENT SYSTEM	OPNAV	Oct-05
PB VIEWS	OPNAV	Oct-05
DOCUMENTUM WEBTOP CLIENT	OPNAV	Oct-05
TRIM CONTEXT	OPNAV	Oct-05
HQWEB OPERATIONS AND ADMINISTRATION	OPNAV	Oct-05
HQWEB EDIT-IN-PLACE	OPNAV	Oct-05
OPNAV AVIATION TRAINING MANAGEMENT SYSTEM	OPNAV	Oct-05
MICROSOFT WORD 2000	OPNAV	Oct-05

CIVILIAN RESOURCE INFORMATION SYSTEM	OPNAV	Oct-05
RESOURCE MANAGEMENT KNOWLEDGE SYSTEM	OPNAV	Oct-05
MILESTONES 2002 PROFESSIONAL	Office of Naval Research	Oct-05
LIVELINK	Office of Naval Research	Oct-05
FOLIO BOUND VIEWS	Office of Naval Research	Oct-05
WORDPERFECT	Office of Naval Research	Oct-05
DEFENSE ASSISTANCE AWARD DATA SYSTEM	BUPERS MILLINGTON TN	Oct-05
MC1WORLDCOM PERSPECTIVE PLUS	BUPERS MILLINGTON TN	Oct-05
SEAGATE CRYSTAL REPORTS PROFESSIONAL	BUPERS MILLINGTON TN	Oct-05
CHARMS MUSIC OFFICE ASSISTANT	BUPERS MILLINGTON TN	Oct-05
MC1WORLDCOM PERSPECTIVE PLUS	BUPERS MILLINGTON TN	Oct-05
ACCOUNTING AND INFORMATION MANAGEMENT SYSTEM	BUPERS MILLINGTON TN	Oct-05
BUDGET BUILDER	BUPERS MILLINGTON TN	Oct-05
CONTROL-D FOR DISTRIBUTED SYSTEMS WEB	BUPERS MILLINGTON TN	Oct-05
ENLISTED DISTRIBUTION AND VERIFICATION REPORT	BUPERS MILLINGTON TN	Oct-05
AUTOMATED DISBURSING SYSTEM	BUPERS MILLINGTON TN	Oct-05
NAVY MARINE CORPS MOBILIZATION PROCESSING SYSTEM (CORMIS)	BUPERS MILLINGTON TN	Oct-05
CORRECTIVE MANAGEMENT INFORMATION SYSTEM (CORMIS)	COMNAV/FACENGCOM	Oct-05
1099 TAX REPORTING PROGRAM	COMNAV/FACENGCOM	Oct-05
FOLIO BOUND VIEWS	COMNAV/FACENGCOM	Oct-05
MY EUREKA	COMNAV/FACENGCOM	Oct-05
AUTODESK INVENTOR	COMNAV/FACENGCOM	Oct-05
HAZARDOUS MATERIAL INFORMATION RESOURCE SYSTEM	COMNAV/FACENGCOM	Oct-05
MATERIAL FINANCIAL CONTROL SYSTEM	COMNAV/FACENGCOM	Oct-05
MICROSNAP BASELINE	COMNAV/FACENGCOM	Oct-05
XEROX DOCUMENT SHARE CLIENT	COMNAV/FACENGCOM	Oct-05
CONTRACTOR PERFORMANCE ASSESSMENT REPORTING SYSTEM	COMNAV/FACENGCOM	Oct-05
ENVIRONMENTAL COMPLIANCE EVALUATION (ECE)	COMNAV/FACENGCOM	Oct-05
PRIME VECTOR	COMNAV/FACENGCOM	Oct-05
SEAGATE CRYSTAL REPORTS PROFESSIONAL	COMNAV/FACENGCOM	Oct-05
CRAFT AND BOAT SUPPORT SYSTEM	COMNAV/FACENGCOM	Oct-05
QUICK PRINTING OF IRRD (QUICK-1)	COMNAV/FACENGCOM	Oct-05
MANAGE FUNDS	COMNAV/FACENGCOM	Oct-05
AODSEE	COMNAV/FACENGCOM	Oct-05
TEXTPAD	COMNAV/FACENGCOM	Oct-05
PROGRAM BUDGET ACCOUNTING SYSTEM	COMNAV/FACENGCOM	Oct-05
COREL WORDPERFECT	COMNAV/FACENGCOM	Oct-05

WINCOMPARE 2	COMNAVFAENGCOM	Oct-05
XEROX DOCUSHARE	COMNAVFAENGCOM	Oct-05
STANDARD ACCOUNTING BUDGETING & REPORTING SYSTEM (SABRS)	COMNAVFAENGCOM	Oct-05
AUTOMATED QUALITY ASSURANCE SYSTEM FOR WINDOWS	COMNAVFAENGCOM	Oct-05
FACILITIES TEAM SURVEY (FACTS)	COMNAVFAENGCOM	Oct-05
WINESTIMATOR	COMNAVFAENGCOM	Oct-05
CONSOLIDATED AUTOMATED SUPPORT SYSTEM	COMNAVFAENGCOM	Oct-05
IHS HAYSTACK	COMNAVFAENGCOM	Oct-05
NAVY ENVIRONMENTAL QUALITY ASSESSMENT SOFTWARE	COMNAVFAENGCOM	Oct-05
SURE TRAK	COMNAVFAENGCOM	Oct-05
ALLIUSION MODEL MANAGER	COMNAVFAENGCOM	Oct-05
ENVIRONMENTAL MANAGEMENT SOFTWARE	COMNAVFAENGCOM	Oct-05
FLUID MECHANICS TOOLS FOR WINDOWS	COMNAVFAENGCOM	Oct-05
POLLUTION PREVENTION ANNUAL DATA SUMMARY	COMNAVFAENGCOM	Oct-05
MAPBOOK GENERATOR	COMNAVFAENGCOM	Oct-05
R&R REPORT WRITER (XBASE EDITION)	COMNAVFAENGCOM	Oct-05
BUDGET BUILDER	COMNAVFAENGCOM	Oct-05
CERPS HISTORY ONLINE OPERATOR SEARCH ENGINE	COMNAVFAENGCOM	Oct-05
AUTODESK INVENTOR	COMNAVFAENGCOM	Oct-05
ENVIRONMENTAL INFORMATION MANAGEMENT SYSTEM (CITRIX [CA CLIENT])	COMNAVFAENGCOM	Oct-05
GHOSTVIEW	COMNAVFAENGCOM	Oct-05
PURCHASE REQUEST BUILDER	COMNAVFAENGCOM	Oct-05
STANDARD PROCUREMENT SYSTEM COMPUTER BASED TRAINING	COMNAVFAENGCOM	Oct-05
GENERAL SERVICES ADMINISTRATION ADVANTAGE	COMNAVFAENGCOM	Oct-05
ELECTRONIC SOLICITATION ONLINE	COMNAVFAENGCOM	Oct-05
ELECTRONIC PROJECT PROCUREMENT GENERATOR	COMNAVFAENGCOM	Oct-05
NAVY AIR FORCE INTERFACE	COMNAVFAENGCOM	Oct-05
DEFENSE WORKING CAPITAL ACCOUNTING SYSTEM	COMNAVFAENGCOM	Oct-05
PERSONNEL INFO SYSTEM FOR TRAINING, OPERATIONS AND LOGISTICS (PISTOL)	COMNAVFAENGCOM	Oct-05
MILITARY CONSTRUCTION PLANNING (MCP)	COMNAVFAENGCOM	Oct-05
CENTRAL CONTRACTOR REGISTRATION	COMNAVFAENGCOM	Oct-05
JOINT ENGINEERING DATA MANAGEMENT INFORMATION AND CONTROL SYSTEM	HQ USMC	Oct-05

JOINT ENGINEERING DATA MANAGEMENT INFORMATION AND CONTROL SYSTEM	HQ USMC	Oct-05
TRANSPORTATION COORDINATORS' AUTOMATED INFORMATION FOR MOVEMENTS SYSTEM II	HQ USMC	Oct-05
ORDNANCE INFORMATION SYSTEM	HQ USMC	Oct-05
JOINT CONFIGURATION MANAGEMENT INFORMATION SYSTEM	HQ USMC	Oct-05
CONCERTO	HQ USMC	Oct-05
NAVAIR INDUSTRIAL MATERIAL MANAGEMENT SYSTEM	HQ USMC	Oct-05
JOINT ENGINEERING DATA MANAGEMENT INFORMATION AND CONTROL SYSTEM	HQ USMC	Oct-05
SERIAL NUMBER TRACKING	HQ USMC	Oct-05
MCL LOADER	HQ USMC	Oct-05
MCL-LINK LITE	HQ USMC	Oct-05
SUBSISTENCE TOTAL ORDER AND RECEIPT ELECTRONIC SYSTEM NT	HQ USMC	Oct-05
HAZARDOUS MATERIAL MANAGEMENT SYSTEM	HQ USMC	Oct-05
WINCOMPARE 2	HQ USMC	Oct-05
TEARDOWN AND DISPOSITION WORKBENCH	HQ USMC	Oct-05
SPECSTINTACT	HQ USMC	Oct-05
CASHLINK II	HQ USMC	Oct-05
ARBORTEXT EPIC	HQ USMC	Oct-05
INTERACTIVE AUTHORIZING AND DISPLAY SYSTEM	HQ USMC	Oct-05
NAUTOMIS (LEGACY) INTERMEDIATE MAINTENANCE ACTIVITY	HQ USMC	Oct-05
CAPOAD VFS TRACE MODULE	HQ USMC	Oct-05
MEASURE PC INVENTORY QUERY	HQ USMC	Oct-05
NAUTOMIS (LEGACY) ORGANIZATIONAL MAINTENANCE ACTIVITY	HQ USMC	Oct-05
FEDERAL LOGISTICS	HQ USMC	Oct-05
ACTIVITY BASED INFORMATION SYSTEM ABC/ABM	HQ USMC	Oct-05
OROS (ACTIVITY BASED COSTING)	HQ USMC	Oct-05
AUTOMATED COST ESTIMATING INTEGRATED TOOLS	HQ USMC	Oct-05
AIRCRAFT ENGINE MANAGEMENT SYSTEM	HQ USMC	Oct-05
ADEPT SERIES (ARBORTEXT)	HQ USMC	Oct-05
IMAGER32 FROM US ARMY, FOR BIW DRAWINGS	HQ USMC	Oct-05
CONFIGURATION MANAGEMENT INFORMATION SYSTEM	HQ USMC	Oct-05
MEASURE PC INVENTORY QUERY	HQ USMC	Oct-05
ELECTRONIC DOCUMENT MANAGEMENT SYSTEM	HQ USMC	Oct-05
NAVY ELECTRONIC COMMERCE ONLINE	HQ USMC	Oct-05

CAPAD VFS WEB ORDERING MODULE	HQ USMC	Ocl-05
CONVENTIONAL AMMUNITION INTEGRATED MANAGEMENT SYSTEM	HQ USMC	Ocl-05
HAZARDOUS MATERIAL MANAGEMENT SYSTEM	HQ USMC	Ocl-05
ASSET TRACKING LOGISTICS AND SUPPLY SYSTEM	HQ USMC	Ocl-05
COMPUTER AUTOMATED TRANSPORTATION TOOL SYSTEM	COMUSFLTFORCOM	Ocl-05
AVIATION STORE KEEPER INFORMATION TRACKING SYSTEM	COMUSFLTFORCOM	Ocl-05
MILITARY PAPER CHECK CONVERSION	COMUSFLTFORCOM	Ocl-05
NTCSS INTEGRATED BARCODE SYSTEM	COMUSFLTFORCOM	Ocl-05
AUTOMATED WEIGHT & BALANCE SYSTEM (AWBS)	COMUSFLTFORCOM	Ocl-05
DEFENSE MILPY OFFICE	COMUSFLTFORCOM	Ocl-05
FOOD SERVICE MANAGEMENT	COMUSFLTFORCOM	Ocl-05
AUTOMATED COMPLIANCE EVALUATION	COMUSFLTFORCOM	Ocl-05
CENTRALLY BILLED ACCOUNTS RECONCILIATION MODULE	COMUSFLTFORCOM	Ocl-05
IHS HAYSTACK ALLOWANCE PARTS LIST	COMUSFLTFORCOM	Ocl-05
ADVANCED INDUSTRIAL MANAGEMENT	COMUSFLTFORCOM	Ocl-05
HAWAII INFORMATION TRANSFER SYSTEM APPLICATION	COMUSFLTFORCOM	Ocl-05
NTCS INTEGRATED BARCODE SYSTEM	COMUSFLTFORCOM	Ocl-05
STANDARDIZED BILLING TO STARS-FL	COMUSFLTFORCOM	Ocl-05
STANDARD INFORMATION MANAGEMENT SYSTEM	COMUSFLTFORCOM	Ocl-05
FLEET INDUSTRIAL SUPPLY MANAGEMENT INFORMATION SYSTEM	COMUSFLTFORCOM	Ocl-05
SUBMARINE LOGISTICS DATABASE	COMUSFLTFORCOM	Ocl-05
ME PRO	COMUSFLTFORCOM	Ocl-05
LOGISTICS MANAGEMENT DECISION SUPPORT SYSTEM	COMUSFLTFORCOM	Ocl-05
AVIATION MATERIAL MAINTENANCE MANAGEMENT	COMUSFLTFORCOM	Ocl-05
SSP ADVANCED INVENTORY AND LOGISTICS - REPAIRABLES (SAIL-R)	COMUSFLTFORCOM	Ocl-05
REQUISITION APPROVAL PROGRAM	COMUSFLTFORCOM	Ocl-05
ALTERNATE NIN FILE	COMUSFLTFORCOM	Ocl-05
CENTRALIZED MASTER EDIT TABLE	COMUSFLTFORCOM	Ocl-05
CHILD AND YOUTH MANAGEMENT SYSTEM	COMUSFLTFORCOM	Ocl-05
Maintenance Planning, Scheduling, Evaluation and Analysis	COMUSFLTFORCOM	Ocl-05
Naval Tool for Interoperability Risk Assessment	COMUSFLTFORCOM	Ocl-05
Authorized User List	COMUSFLTFORCOM	Ocl-05
Advanced Industrial Management	COMUSFLTFORCOM	Ocl-05
NEPALIBRARY	COMUSFLTFORCOM	Ocl-05
Fleet Maintenance Data	COMUSFLTFORCOM	Ocl-05

SUPPLY MAINTENANCE AVIATION REENGINEERING TEAM	COMUSFLTFORCOM	Oct-05
NAVAL AVIATION LOGISTICS DATA ANALYSIS (PROGRAM)	COMUSFLTFORCOM	Oct-05
NAVAL TACTICAL COMMAND SUPPORT SYSTEM II DESKTOP	COMPACFLT	Oct-05
NALCOMIS OPTIMIZED ORGANIZATIONAL MAINTENANCE ACTIVITY	COMPACFLT	Oct-05
MICROSOFT PROJECT STANDARD 2002	COMPACFLT	Oct-05
CSVIEW22	COMPACFLT	Oct-05
MAINTENANCE APPLICATIONS	COMPACFLT	Oct-05
Maintenance Applications	COMPACFLT	Oct-05
SHOWCASE STRATEGY	COMPACFLT	Oct-05
SUBMARINE ON BOARD TRAINING - COMPUTER MANAGED INSTRUCTION	COMPACFLT	Oct-05
RETAIL ORDNANCE LOGISTICS MANAGEMENT SYSTEM STANDALONE	COMPACFLT	Oct-05
SCANSOFT PDF CONVERTER	COMPACFLT	Oct-05
ISSUE RELEASE RECEIPT DOCUMENT	COMPACFLT	Oct-05
MAINTENANCE APPLICATIONS	COMPACFLT	Oct-05
AUTODESK INVENTOR	COMPACFLT	Oct-05
DESKTOP VIEWING CD	COMPACFLT	Oct-05
EXPLOSIVES SAFETY TECHNICAL MANUAL	COMPACFLT	Oct-05
NCMIS PORTABLE PACE	COMPACFLT	Oct-05
ADP PC/PAYROLL FOR WINDOWS	COMPACFLT	Oct-05
FUND ADMINISTRATION AND STANDARDIZED DOCUMENT AUTOMATION	COMPACFLT	Oct-05
FOOD SERVICE MANAGEMENT SYSTEM	COMPACFLT	Oct-05
EDVIEW2	COMPACFLT	Oct-05
PTSV POD TRACKING SYSTEM	COMPACFLT	Oct-05
BATTERY ACQUISITION TRANSACTION SYSTEM	COMPACFLT	Oct-05
MINE ALLOWANCE DATABASE	COMPACFLT	Oct-05
JOINT TEMPORARY LODGING ALLOWANCE	COMPACFLT	Oct-05
PHOTODEX COMPIC PRO	COMPACFLT	Oct-05
VISUAL BASIC (COMMAND WIDE DATABASE)	COMPACFLT	Oct-05
TYCOM ALTERATIONS MANAGEMENT SYSTEM	COMPACFLT	Oct-05
NWCRS CASEWORK ASSISTANCE PROGRAM	COMPACFLT	Oct-05
ATAC OPERATIONAL REPORTING SYSTEM	COMPACFLT	Oct-05
STANDARD TRAINING ACTIVITY SUPPORT SYSTEM - FLIGHT (STASS - FLT)	COMPACFLT	Oct-05
RETAIL ORDNANCE LOGISTICS MANAGEMENT SYSTEM	COMPACFLT	Oct-05

HAZARDOUS MATERIALS AUTHORIZED USE LIST	COMPACFLT	Oct-05
NAVAL TACTICAL COMMAND SUPPORT SYSTEM II DESKTOP	COMPACFLT	Oct-05
INSTALLED DISCREPANT PARTS LIST	COMPACFLT	Oct-05
SEATS/CAPS	COMPACFLT	Oct-05
NTCSS RELATIONAL SUPPLY	COMPACFLT	Oct-05
NTCSS NALCOMIS OPTIMIZED INTERMEDIATE MAINTENANCE ACTIVITY	COMPACFLT	Oct-05
NAVAL TACTICAL COMMAND SUPPORT SYSTEM II DESKTOP	COMPACFLT	Oct-05
PSNAPII SHIPS AND MAILS AUTOMATED RECONCILIATION TRACKING SYSTEM	COMPACFLT	Oct-05
NALCOMIS OPTIMIZED ORGANIZATIONAL MAINTENANCE ACTIVITY	COMPACFLT	Oct-05
FINANCIAL RESOURCE MANAGEMENT SYSTEM II	COMPACFLT	Oct-05
FOOD SERVICE MANAGEMENT SYSTEM	COMPACFLT	Oct-05
ELECTRONIC RETROGRADE MANAGEMENT SYSTEM	COMPACFLT	Oct-05
ASSET INFORMATION MANAGEMENT BY INTERGRAPH RECEIPT, SEGREGATION, STORAGE, AND ISSUE LIGHTSHIP LASERFICHE CLIENT	COMPACFLT	Oct-05
TROUBLE AND FAILURE REPORT FOR WINDOWS	COMPACFLT	Oct-05
ORGPLUS FOR WINDOWS	COMPACFLT	Oct-05
BUSINESS INFORMATION SYSTEM	COMPACFLT	Oct-05
CANCELLATION EXPORTER	COMPACFLT	Oct-05
AMTCS SOFTWARE MODULE	COMPACFLT	Oct-05
AMTCS ICW SUPPORT SUITE	COMPACFLT	Oct-05
TRAINING MANAGEMENT SYSTEM 2	COMPACFLT	Oct-05
NAVY COLLEGE MANAGEMENT INFORMATION SYSTEM	COMPACFLT	Oct-05
SAILOR AND MARINE CORPS AMERICAN COUNCIL ON EDUCATION REGISTRY TRANSCRIPT (SMART)	COMPACFLT	Oct-05
TOURS FLIGHT TRAINING SCHEDULER	COMPACFLT	Oct-05
FINANCIAL MANAGEMENT INFORMATION SYSTEM - CPF	COMPACFLT	Oct-05
NAVAL HEADQUARTERS BUDGETING SYSTEM	COMPACFLT	Oct-05
AVIATION STORE KEEPER INFORMATION TRACKING SYSTEM ACDSFE	COMPACFLT	Oct-05
SHIPS HAZARDOUS MATERIAL LIST FOR WINDOWS	COMPACFLT	Oct-05
MAINTENANCE SUPPORT DATA SYSTEM	COMPACFLT	Oct-05
VUEPRINT PRO	COMPACFLT	Oct-05
DEFENSE INDUSTRIAL FINANCIAL MANAGEMENT SYSTEM	COMPACFLT	Oct-05
ACDSFE	COMPACFLT	Oct-05

MILITARY AWARDS	COMPACFLT	Oct-05
NAVAIR ENGINEERING INVESTIGATION (WEB-BASED)	COMPACFLT	Oct-05
HAZARDOUS INVENTORY CONTROL SYSTEM FOR WINDOWS	COMPACFLT	Oct-05
AUTOMATED WAREHOUSE INFO SYSTEM	COMPACFLT	Oct-05
CUSTOMER SUPPORT BUDGET	COMPACFLT	Navy ERP P
JOB ORDER NUMBERS ON THE WEB	COMPACFLT	Oct-05
SITE DATA COLLECTION MODULE	COMPACFLT	Oct-05
COMM INFO SYS NET MNGT ANALYST TOOL	COMPACFLT	Oct-05
COMNAVRESFOR INTEGRATED RECRUITING INFORMATION	COMNAVRESFOR NEW ORLEANS	Oct-05
MANAGEMENT SYSTEM	COMNAVRESFOR NEW ORLEANS	Oct-05
SUPPORT EQUIPMENT CONTROLLING AUTHORITY TOOLS	COMNAVRESFOR NEW ORLEANS	Oct-05
INTUIT QUICKBOOKS PREMIER EDITION	COMNAVRESFOR NEW ORLEANS	Oct-05
V.LETTER SIG (SIGNATURE SOFTWARE)	COMNAVRESFOR NEW ORLEANS	Oct-05
NALCOMIS OPTIMIZED OMA (OMA) WORKSTATION	COMNAVRESFOR NEW ORLEANS	Oct-05
NTCSS NALCOMIS OPTIMIZED INTERMEDIATE MAINTENANCE ACTIVITY	COMNAVRESFOR NEW ORLEANS	Oct-05
NTCSS RELATIONAL SUPPLY I	COMNAVRESFOR NEW ORLEANS	Oct-05
INACTIVE MANPOWER AND PERSONNEL MANAGEMENT INFORMATION SYSTEM	COMNAVRESFOR NEW ORLEANS	Oct-05
RESERVE INTEGRATED MANAGEMENT SYSTEM FINANCIAL MANAGEMENT	COMNAVRESFOR NEW ORLEANS	Oct-05
TECHNICAL PUBLICATIONS LIBRARY PROGRAM	COMNAVRESFOR NEW ORLEANS	Oct-05
SEAGATE CRYSTAL REPORTS, PROFESSIONAL	COMNAVRESFOR NEW ORLEANS	Oct-05
DEFENSE JOINT MILITARY PAY SYSTEMS - RESERVE COMPONENT	COMNAVRESFOR NEW ORLEANS	Oct-05
DEFENSE JOINT MILITARY PAY SYSTEMS - ACTIVE COMPONENT	COMNAVRESFOR NEW ORLEANS	Oct-05
STANDARDS ACQUISITION TRACKING SYSTEM	COMNAVRESFOR NEW ORLEANS	Oct-05
BASE LEVEL ITEM TRACKING SYSTEM	COMNAVRESFOR NEW ORLEANS	Oct-05
UNIFORM ADP SYS-STOCK POINTS	COMNAVRESFOR NEW ORLEANS	Oct-05
FORCE OBLIGATION REPORTING END-USE ACCOUNTING AND STATISTICAL TRACKING	COMNAVRESFOR NEW ORLEANS	Oct-05
ADVANCED TRACEABILITY & CONTROL DATABASE	COMNAVSPCWARCOM	Oct-05
DEFENSE DEPARTMENTAL REPORTING SYSTEM - AUDITED FINANCIAL STATEMENTS	ASN/F&M/C	Oct-05

Mr. MONTELONGO. Senator Akaka, your question covers a number of areas. To address the first two parts of your question concerning system termination, I have attached a spreadsheet listing the business systems that have been terminated or will be terminated over the next 24 months. The text below addresses the latter two parts of your question concerning significant changes the Air Force has made to its business operation processes, and corrective actions being taken addressing deficiencies in areas such as environmental liabilities, property, plant and equipment, material in the possession of contractors and inventory valuation.

#### *Business Operation / System Process Improvements*

The Air Force has made significant changes to its business operation processes and systems to improve data reliability. The DOD and Air Force have made great strides developing a formal framework to deliberately modernize not just our financial systems, but also our business management systems infrastructure. From the very beginning, the Air Force has played a strong, collaborative, and involved role

with our DOD and Service colleagues to develop products like the DOD BEA and serve in domains and governance committees. This is a key point because architecture lays out the fundamental standards and guidelines that describe how an enterprise operates in an integrated fashion.

The Air Force created its own BEA and linked it to the DOD BEA. The Air Force BEA, now called the operational support enterprise architecture, focuses on the activities and processes that provide business support to Air Force warfighters. It also gives the Air Force the ability to define, evaluate, and improve these processes in a cross-functional environment. Because these aligned architectures form the basis for business and operational integration, we can employ modern tools like ERP systems with greater confidence than ever. Additionally, ERP systems are maturing (through greater scalability, interoperability, and flexibility), to include the unique requirements of the Department.

Our "ERP readiness" has increased due to the Air Force and DOD move toward netcentricity and data sharing—doing more of the fundamental and foundational tasks that facilitate enterprise integration. In this area, the Air Force has developed a common technical framework for providing warfighting and supporting activities with timely, accurate, and trusted combat support and business information. The technical framework has been developed under our Air Force portion of the DOD Global Combat Support System (GCSS). Within GCSS-AF, the Air Force portal (our gateway to applications and information) is designed as the standard user interface to Air Force support data and functions. The Air Force portal includes personalized, role-based access and single sign-on information for over 100 capabilities within combat support and business areas that have been reengineered to be self-service accessible to our airmen both at home and deployed. We see tangible evidence of this in the logistics, human resources and personal finance functions, where we have greatly improved service delivery capability to the warfighter.

A key part of the technical framework is a common Air Force-wide enterprise data warehouse, AFKS. Incrementally, the Air Force is moving data locked in our legacy systems to AFKS to provide an integrated platform for storing, processing, and managing enterprise data. With AFKS, airmen can now rapidly access authoritative information and perform ad hoc queries, dramatically reducing the time to perform critical support functions. For all these reasons, we are now pragmatically poised for the next stage to achieve the enterprise business and systems integration we all seek.

#### *Business Process Improvement Examples*

An excellent example of an ERP project being developed is the DEAMS. DEAMS will replace a number of antiquated Air Force and USTRANSCOM systems with a new COTS finance and accounting system that will process and record all budgetary, accounting, and vendor pay transactions. We are using this opportunity to perform business process re-engineering and implement industry best practices throughout the Air Force. An approved pilot project, DEAMS is being developed by a joint Air Force, USTRANSCOM, and DFAS team and demonstrates a continuing trend toward DOD-wide—rather than component-specific—business and operational systems. The DEAMS Executive Steering Group includes representation from the Air Force, Army, Navy, OSD, and DFAS and thus the program has joint oversight.

Another modernization effort underway is the development of the Expeditionary Combat Support System (ECSS). ECSS is a COTS-based system that will enable the eLog21 future logistics vision by leveraging an ERP system as its primary system component. ECSS will leverage an integrated data environment to provide standardized reporting, eliminate data credibility issues and time inefficiencies, and provide total visibility across the supply chain, vastly improving readiness and mission capability.

In support of the DOD acquisition domain and Air Force business modernization objectives, we have developed a list of applications that support acquisition and are mapping those to specific processes within the acquisition architecture. The acquisition architecture has continued to evolve from a procurement-centric to an acquisition-wide perspective to help support this process. We are developing this business architecture for acquisition in concert with Army, Navy, and OSD, and are developing a joint strategy for the development of DOD-wide enterprise solutions for required acquisition capabilities. In addition, the Air Force has begun to integrate the monitoring of major acquisition programs through a single tool, the System Metric and Reporting Tool (SMART). This application consolidates both automated and manual inputs to create a single integrated look at individual programs as well as portfolios of programs. SMART contains data on all programs on the Air Force's Acquisition Program List.

The Air Force has begun to implement part of its Enterprise Architecture for Procurement (EAP) through commodity councils as a complementary strategic sourcing effort. A commodity council is a cross-functional group of contracting and product/service experts who come together to define future need for a product or service, analyze the market, and develop and implement an enterprise-wide strategy to meet that need. While each commodity is different, the process used to develop and implement the enterprise strategy is the same. The EAP is directly tied to the Air Force Material Command Purchasing and Supply Chain Management effort and is coordinated with other Air Force architecture efforts. We plan to provide desktop access to negotiated/established contracting vehicles and business intelligence to almost 8,500 contracting professionals. This will move contracting personnel toward becoming strategic business advisors, versus tactical buyers.

The Air Force Civil Engineering (CE) community has taken the first crucial steps toward modernizing the Automated Civil Engineer System (ACES) by instituting working groups to accomplish business process models. The result of these meetings will be fully developed, streamlined business process models for all functionalities within ACES. These models will be vital to the design of the future CE Automated Information System, which will include a single physical database, enabling all ACES subsystems to be fully integrated, share data standards, and implement compatible business rules. Additionally, ACES is planned to consolidate more than 250 engineering, explosive ordnance disposal, housing, readiness, and real property databases into one centralized database.

The Air Force continues work on the Enterprise Environmental, Safety, and Occupational Health-Management Information System (EESOH-MIS). EESOH-MIS is planned to transform and consolidate over 24 multiple environmental, safety, and occupational health stove-piped systems into one integrated solution set. EESOH-MIS is planned as a single enterprise database hosted on the Global Combat Support System-AF framework, integrating software and database requirements for civil engineering, medical, and safety personnel and eliminating redundant reporting. The system uses process-centric design and a single integrated database to share the 60 percent common data set across the ESOH functions, allowing standarized business processes to be institutionalized across the AF. EESOH is being developed to include CFO requirements as identified in the CFO "Bluebook."

In June 2001, the Air Force deployed Military Personnel Data System (MilPDS), a COTS solution for military personnel processing that eliminated the legacy mainframe system. From the onset, MilPDS had problems due to lack of engineering discipline, poorly programmed resources, and haphazard training. This resulted in sub-standard performance; the interface with the pay system being one of the most noted. To further assess the program, the AF CIO and the AF/DP asked the Software Engineering Institute (SEI) at Carnegie Mellon to conduct a review and provide recommendations for meeting customer needs, stabilizing MilPDS, and planning for future systems. The SEI review was completed in October 2002, and addressed recommendations such as: better use of COTS for human resource management; improved software development controls; an institutionalized requirements process; and structured user and technical training.

After the SEI review, we implemented the recommendations through a series of actions. We established a systems program office for personnel data systems, managed in the same manner and discipline as major weapons systems, including acceptance testing of final products before deployment of changes or modifications. We also established a centralized requirements office that serves as a focal point for personnel data systems requirements and human resources information technology initiatives. We provided improved training, established a structured process for capturing and maintaining systems documentation, and are continuing a business process re-engineering effort via a human resources lab for an integrated personnel pay solution—Defense Integrated Military Human Resources System (DIMHRS).

We are continuing efforts to transform personnel management via the Personnel Service Delivery (PSD) program. The customer-focused integrated service delivery system is comprised of three key elements: the Air Force portal, an integrated contact center, and front-line support cadre. Through use of the portal, customers can access personnel services 24 hours a day, 7 days a week. The integrated contact center provides a single telephone number to customers as an alternative to access personnel services. Finally, front-line support cadre provides a single integrated customer service center at bases or deployed locations, with a leaner, reduced footprint. The PSD program reduces manpower requirements by 1,500 over 5 years, enabling an estimated net savings of \$342 million over the FYDP. The savings of 1,200 military and 300 civilian authorizations has already been programmed to offset the cost of the PSD initiative. Once fully developed and implemented, PSD will provide new

and improved capabilities to create a seamless service delivery system for all customers.

The Air Force also established a Personnel Information Technology Management Board. This board serves as the clearinghouse for all Air Force personnel IT issues. New requirements that drive fiscal or human resources are now vetted through this Board and the AF Personnel CIO.

The examples described above are a sample of our significant achievements. Since 2001, the Air Force has terminated 58 systems. Of the 58, 25 systems were terminated in fiscal year 2001, 16 in fiscal year 2002, 11 in fiscal year 2003, and 6 in fiscal year 2004. We plan to terminate 5 systems in fiscal year 2005, and 16 additional systems between fiscal year 2005 and fiscal year 2007. Please see the attached spreadsheet for more detailed information addressing the first two parts of your question.

System Title	Acronym	System Termination (FY)
Automated Justification & Approval System	AJAS (J059)	2001
Automated Market Survey	AMS (J070)	2001
Base Contracting & Administration System	BCAS	2001
Justification and Approval Tracking System	JAT (J102)	2001
Source Approval Request Tracking System	SARTS (A203)	2001
ASIMIS Structural Modification Control Program	ASIMCP	2001
ASIMIS Teleprocessing Applications System	ATA	2001
Combat Ammunitions Systems - C	CAS - C	2001
Deficiency Reporting Information System	DRIS	2001
Parts Information Management System	EAGLEPIMS	2001
Exceedance Counter Program	ECP	2001
Individual Aircraft Tracking System	IATP	2001
Information Processing Management System	IPMS	2001
KeyStone Decision Support System	KDSS	2001
Service Loads and Life History Recorder	LLHRP	2001
Material Processing System	MPS	2001
Mechanical Strain Recorder Data Analysis	MSRDA	2001
Recoverable Assembly Management Process	RAMP	2001
Recoverable Consumption Item Requirement	RCIRS	2001
Systems and Equipment Modification	SEMP	2001
Special Support Stock Control and Distribution	SSSCD	2001
Transportation Routing and Document System	TRAD	2001
Student Enrollment and Management System	SEAMS	2001
Typing Tutor 32	TT32	2001
Video Library Data Base	VLD	2001
Acquisition Interim System	ALS	2002
Central Acquisition & Sustainment MIS	CASMIS	2002
Contract Maintenance Accounting and Production System	CMAPS	2002
Depot Maintenance Hazardous Material Management Systems	DM-HMMS	2002
Distribution Quality Assurance Reporting	DQARS	2002
Economic Order Quantity by Budget Computation	EOQBC	2002
Economic Order Quantity Depot Data Base (EOQ DDB)	EOQDDB	2002
Interservice Maintenance Accounting & Control System	IMACS	2002
Labor Standard Data System	LSDS	2002
Pipeline Tracking Analysis and Metrics System	PTAMS	2002
Readiness Based Leveiling	RBL	2002

Special Tools and Special Test Equipment (STE/STE) Process	STE	2002
Automated Purchase Card System	APCS	2002
SOF Training Management System	SOF-TMS	2002
Training Load Computation System	TLCS	2002
Security Testing Program	STP (MOSEC)	2002
Automated Purchase Card	APCS	2003
Computer Aided Load Manifesting	CALM	2003
Retail Item Stratification	RIS	2003
WSMIS -- Shop Processing (SHOP PRO)	WSMIS-SPRO	2003
Maintenance Actual Material Cost System	MAMCS	2003
Depot Maintenance Budget and Management Cost System	DMBMCS	2003
Maintenance Labor Distribution and Cost System	MLDCS	2003
Aircrew Graduate Distribution and Cost System	AGDCS	2003
Aircrew Graduate Evaluation Program & Introductory Flight Training	AGFEP and IFT	2003
Automated Resource Management System	ARMS	2003
SEF (SIFP)	SEF (SIFP)	2003
RESREQMOD	RESREQMOD	2003
AMIS (J011)	AMIS (J011)	2004
CAOS (J001A)	CAOS (J001A)	2004
DD350 (J108)	DD350 (J108)	2004
FACTS	FACTS	2004
SR.NCOA-R	SR.NCOA-R	2004
TB3	TB3	2004
APS (J023)	APS (J023)	2005
CARS (J001)	CARS (J001)	2005
TRIM	TRIM	2005
FIPAS	FIPAS	2005
FRMS	FRMS	2005
AFRIMS	AFRIMS	2006
IWMS	IWMS	2006
MICROBAS	MICROBAS	2006
Command Budget and Accounting System	AF-EMIS	2006
Air Force Environmental Management Information System	ERPIMS	2007
Environmental Resources Program Information Management System	EQWeb	2007
Environmental Quality Web	HOMER	2007
Housing of Mandatory Environmental Requirements	IRR	2007
Installation Readiness Report	FIM	2007
Facilities Investment Metric		

## Air Force IT Systems Termination (2001-2007)

MRO Asset Management Software MAXIMO Version 5	2007
Occupational Data Instrument Processing System	2005-2007
Automated Training Requirements Analysis System	2005-2007
Mail List	2005-2007
Test Control Officer Network Administration System	2005-2007
Comprehensive Occupational Data Analysis Program	2005-2007

## QUESTIONS SUBMITTED BY SENATOR MARK DAYTON

## ADD-ON ARMOR FUNDING

25. Senator DAYTON. Ms. Baldwin, I want to ensure that the Army has sufficient force protection funding for personnel in Iraq. Do you have sufficient funding to meet all of your requirements for High-Mobility Multipurpose Wheeled Vehicle (HMMWV) add-on armor kits and add-on armor for the Heavy Expanded Mobility Tactical Truck (HEMTT), Heavy Equipment Transports (HET), and the Family Medium Tactical Vehicles (FMTV)?

Ms. BALDWIN. As of November 18, 2004, the Army funded 13,782 HMMWVs; 1,704 FMTVs; 1,595 HEMTTs; 871 palletized load systems (PLS); 626 M915 1,659 M939 5-ton trucks; 372 M969 fuel tankers; and 665 HETs add-on armor kits. These

kits have been demonstrated to provide an effective level of force protection against small arms and improvised explosive devices for troops traveling in convoys and on patrol. Additional emerging requirements are being addressed in a request for re-programming for the near-term and subsequently in the fiscal year 2005 supplemental request for the long-term. This will ensure sufficient force protection funding for personnel in Iraq.

#### DEFENSE TRAVEL SYSTEM

26. Senator DAYTON. Ms. Jonas, I have concerns with the Defense Travel System (DTS). I wrote to your predecessor, Mr. Lanzillotta, in April seeking answers about DTS, but 4 months later I received a reply saying there were no problems with DTS. By this time, however, Mr. Lanzillotta had left the Pentagon to work for Northrop Grumman. What was Mr. Lanzillotta's role in the December 24, 2003, decision to declare DTS fully operational and deployed, even though it was functioning at only a few hundred of the 11,000 worldwide travel sites the contract required to be operational?

Secretary JONAS. On December 24, 2003, the ASD(NII), John Stenbit, authorized the Department to enter DTS into the Production and Deployment Phase. This decision is required before a system can be deployed worldwide. The memorandum did not declare that DTS was deployed; rather, it provided permission to deploy. Mr. Stenbit's decision memorandum notes that the Under Secretary of Defense (Comptroller), Mr. Zakheim, had certified that the system was being developed in accordance with the BEA and that it was consistent with the BEA and the DOD Business Enterprise Architecture Transition Plan. As Mr. Zakheim's deputy, Mr. Lanzillotta would have participated in that certification.

27. Senator DAYTON. Ms. Jonas, did Mr. Lanzillotta request in early 2004 to disqualify himself from any contact with Northrop Grumman while continuing to serve as Acting Comptroller?

Secretary JONAS. Mr. Lanzillotta recused himself from matters affecting Northrop Grumman on January 13, 2004.

28. Senator DAYTON. Mr. Walker, the GAO is currently conducting an audit of DTS in response from inquiries from myself, Senator Coleman, Senator Grassley, and at least three House Members. When can we expect to receive an interim report and briefing from your staff?

Mr. WALKER. We plan to provide a briefing to your staff in February 2005 on the status of our work, followed by a written report in the fall of 2005.

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#### QUESTIONS SUBMITTED BY SENATOR E. BENJAMIN NELSON

##### DEFENSE FINANCING AND ACCOUNTING SERVICE AND FORWARD COMPATIBLE PAY

29. Senator BEN NELSON. Ms. Jonas, I understand that the Defense Financing and Accounting Service (DFAS) is developing an interim pay system, called Forward Compatible Pay (FCP) because the current pay system is no longer maintainable. What is DFAS doing to make sure that this new system, the FCP, will meet all the needs of the Reserve component so there is no loss in capability and is compatible with existing input systems from the Army and Air National Guard?

Secretary JONAS. Pay requirements for the Reserve component, National Guard, and active-duty components have been reviewed by the Joint Compensation Working Group comprising members from all the military Services and the Defense Finance and Accounting Service. FCP development teams have carefully documented all requirements to configure the FCP system. For the majority of the input systems, there will be minimal change. The FCP system will take input data from the current systems with only minor changes where additional data is needed. The FCP Program Office has been working with Army Personnel Command and Army Reserve Command as owners of the input systems to ensure they are in agreement on any required changes. The FCP Program Office has focused on the Army since it is the first military Service to deploy the FCP system. Follow on planning and meetings will focus on the Air Force and Navy system owners.

30. Senator BEN NELSON. Ms. Jonas, will DFAS provide the required training to each component, active and Reserves for all the branches Army, Navy, Air Force, and Marines, as well as the Army and Air National Guard?

Secretary JONAS. Yes. DFAS will provide training to the Army, Navy, and Air Force active, Reserve, and Guard components. The training will be comprised of formal classroom training, Web Based Training (WBT), and Computer Based Training (CBT). The curriculum has been developed, the initial training schedule has been finalized, the training environment is being initiated, and the first course will be delivered February 2005. The Marine Corps will not be transitioned to the FCP system because the Marine Corps Total Forces System (MCTFS) is an integrated personnel and pay system. The Marines will transition to the DIMHRS when it is available.

31. Senator BEN NELSON. Ms. Jonas, is there a test plan to ensure FCP performs as advertised?

Secretary JONAS. Yes. The FCP test plan has several phases of testing to include system integration test, system qualification test (an end to end test), system acceptance test (user test), and the operational test and evaluation (OT&E). The OT&E is performed by an independent testing agency. For the FCP system, the independent agency performing the OT&E is the Joint Interoperability Test Command (JITC).

32. Senator BEN NELSON. Ms. Jonas, will there be a period of time when both the old and new systems are operating to make sure there is no gap in vital pay support to our mobilized members?

Secretary JONAS. The FCP system will be deployed in phases as indicated below. The legacy military payroll system will be operating until all FCP deployment phases are complete. FCP deployment planning includes a back-out and recovery plan which will permit resumption of legacy system processing for members deployed to FCP if needed.

The FCP will be deployed to the military Services in the following phases:

- Initial deployment to 1,500 Army Reserve/Guard members in March 2005, with an active Army battalion added to the limited deployment in May 2005, during this period the old system will be maintained in parallel,
- Full deployment of the remainder of Army active, Guard, and Reserve in July 2005,
- Full deployment to the Air Force in November 2005, and
- Full deployment to the Navy in March 2006.

#### ACCOUNTING AND REPORTING REPLACEMENT SYSTEMS

33. Senator BEN NELSON. Ms. Jonas, in the early 1990s DFAS inherited many antiquated accounting and reporting systems that were Service-specific. What progress has been made to develop DOD replacement systems that meet both financial analysis needs and reporting requirements?

Secretary JONAS. Senator Nelson, since the early 1990s, the Department has been modifying its systems, where there is a business case to do so, in order to improve their financial analysis and reporting capabilities. In addition, the Secretary established the BMMP to develop enterprise standard financial analysis and reporting requirements. Through collaboration with the other business domains, the Financial Management Domain has imbedded financial rules and internal controls into the other business domain processes to help ensure financial transaction data is generated and reported correctly at the source of the transaction.

The Department has adopted the U.S. Treasury's standard chart of accounts and begun implementing this into current systems, where feasible, to help with standard categorization and reporting of data, thereby improving the Department's ability to perform analysis on the data. To assist in implementing this standard chart of accounts, a transaction library has been developed documenting which accounts must be updated for various types of transactions. Complimentary to this effort is the development of a Standard Financial Information Structure (SFIS), which will be the Department's comprehensive financial data structure to support requirements for budget, cost/performance management, and external reporting across the DOD enterprise. It is a means for categorizing financial information in a standard way to support financial management analysis and reporting functions.

To the extent there is a business case to do so, the Department is implementing these procedural changes into the existing systems to improve its analysis and reporting capabilities today. Longer term solutions to continue the improvement are part of the Department's roll-out of Joint Financial Management Improvement Program compliant COTS products, such as the Navy's ERP, the Army's General Fund Enterprise Business Solution, the Air Force's Defense Enterprise Accounting and

Management System, and DLA's Business System Modernization. Each of these solutions have a financial analysis and reporting function that must comply with the standard financial rules and internal controls and incorporate the SFIS and standard chart of accounts prior to receiving Comptroller certification and subsequent funding at the milestone decision points.

34. Senator BEN NELSON. Ms. Jonas, how will these be implemented by each of the Services, for their active, Guard, and Reserve components?

Secretary JONAS. Senator Nelson, each of the Services is developing a transition plan to include a deployment schedule implementing the new solutions across the Service, to include Guard and Reserve units. For example, the Army's Request for Proposal on the General Fund Enterprise Business System includes the following language: "The resulting system shall provide web based, online, real-time transaction and information capability and be accessible to the active Army, Army National Guard (ARNG), and United States Army Reserve (USAR)." Release 1.3 will replace the Army's Standard Accounting and Finance System, including the ARNG and USAR. As another example, the Air Force plans to convert Guard and Reserve units with each base. The Defense Enterprise Accounting and Management System Version 1.1 at Scott Air Force Base will include the 131st Fighter Wing, 932nd Airlift Wing, and 183rd Fighter Wing.

#### FINANCIAL INFORMATION ACROSS MILITARY ("MIL") NETWORKS

35. Senator BEN NELSON. Ms. Jonas, I understand there are problems sending financial information (pure accounting as well as military pay) information across various military ("mil") networks. What progress has been made to allow ".mil" to ".mil" communications between networks such as between the active components (Army and Air) networks and National Guard (Army and Air) networks?

Secretary JONAS. There are problems sending and receiving financial information, but the problems are generally not caused by network communication issues. In most cases, they are caused by system-to-system and data exchange compatibility issues. Improving data exchanges across systems is a key objective of the BEA. Improving interoperability and legitimate access to data is the objective of the DOD policy requiring netcentric design of IT systems.

DOD has in place a defined process to assure that systems undergoing significant improvement must be compliant with the BEA, which specifies the rules and regulations that must be implemented in IT business systems. DOD uses this same certification process to assure that the Department's policy on interoperability is properly implemented in IT business systems.

#### FINANCIAL MANAGERS INTEGRITY ACT

36. Senator BEN NELSON. Ms. Jonas, the CFO Act of 1990 and related legislation requires audited annual financial statements prepared in accordance with generally accepted accounting principles. The Services need financial management reform to provide better financial information and improve the public confidence in DOD as good stewards of public funds. What progress has been made in financial reporting to meet the requirements of the Financial Managers Integrity Act to produce auditable financial statements?

Secretary JONAS. The Department continues to make progress in complying with the requirements of the CFO Act of 1990 to produce auditable financial statements. Again this year, nearly 50 percent of the Department's total liabilities received an unqualified audit opinion. Six of the Department's subordinate entities received an unqualified audit opinion and the Medicare Eligible Retiree Health Care Fund received a qualified opinion. Additionally, in fiscal year 2004, the Department received favorable audit results on our investments and Federal Employees Compensation Act liabilities reported on the balance sheet along with our appropriations received that are reported on the statement of budgetary resources. To more effectively focus our corrective actions, I have selected four financial focus areas for fiscal year 2005, military equipment, real property, environmental liabilities, and health care data. One common aspect of these four areas is that improvement is not entirely dependent on systems solutions and, therefore, we can achieve near-term victories.

#### RESERVE COMPONENTS IN FUTURE FINANCIAL SYSTEMS

37. Senator BEN NELSON. Ms. Jonas, we all know that never before in our Nation's history have the Reserve components been so heavily tasked and utilized for

missions around the world as they are today. For instance, it is my understanding that past audits and investigations by GAO have revealed that hundreds of the mobilized Army National Guard members had at least one pay problem associated with their mobilization. What is DOD going to do in the future to ensure that the Reserve components are included in the design and implementation of future financial systems and not an afterthought?

Secretary JONAS. Senator Nelson, the Services and OSD are acutely aware of the need to ensure whatever financial systems are fielded, any unique requirements of the Reserve components are included. Recent events have shown us the necessity of having a fully integrated force of active, Guard, and Reserve members utilizing the same systems, both warfighting and business.

To the specific issue of military pay, the Department is developing the DIMHRS for all members of the Armed Forces to ensure a fully integrated personnel and pay system. The lack of an integrated pay and personnel system has been the source of many of the pay issues cited in GAO reports.

Part of the Business Management Modernization Program effort is standardizing the Department's accounting and finance process and data requirements. This standardization will apply to all future system implementations that generate or record financial transactions, to include DIMHRS. With the noted exception of the Reserve pay legacy systems, the financial systems being used by the Reserves are the same as those used by the Active-Duty Forces. As previously stated, the Services plan to transition off the old legacy systems and replace them with the future financial systems, including those utilized in support of the Reserves.

#### DEFENSE INTEGRATED MILITARY HUMAN RESOURCE SYSTEM

38. Senator BEN NELSON. Ms. Baldwin, DIMHRS is scheduled for implementation beginning with the Army in fiscal year 2005. Will the integrated personnel and pay actions be fully functional at that time?

Ms. BALDWIN. My understanding is that initial DIMHRS fielding to the Army will begin in March 2006, and that integrated personnel and pay actions will be functional at that time. The Under Secretary of Defense for Personnel and Readiness (USD P&R) is the lead for DIMHRS and can provide better details on DIMHRS functionality and schedule.

39. Senator BEN NELSON. Ms. Baldwin, will one transaction update both the personnel and pay records simultaneously?

Ms. BALDWIN. My understanding is that the personnel and pay integration within DIMHRS means those personnel updates will result in the simultaneous and automatic update of pay based on the initial processing of any personnel actions affecting pay. The USD P&R is the lead for DIMHRS and can provide better details on DIMHRS functionality.

40. Senator BEN NELSON. Ms. Baldwin, is there a test plan to ensure there is not a repeat of the pay problems the Air Force encountered when Military Personnel Data System was implemented a couple of years ago, realizing that the lack of testing caused major military pay problems within the Air Force?

Ms. BALDWIN. The DIMHRS office, under the USD P&R, assures me that DIMHRS will be properly tested before fielding begins.

[Whereupon, at 4:45 p.m., the subcommittee adjourned.]



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